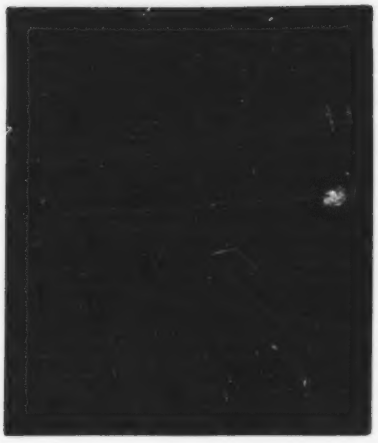
Farm Credit in the Canadian Financial System

Farm Credit Corporation Canada
Société du crédit agricole Canada



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Preface

The financing of agriculture is vital to the continued viability and expansion of Canadian farm businesses. Lending money to farmers has become big business in recent years. Farm debt outstanding increased annually by 14.2 per cent between 1970 and 1980 from $4.4 billion to $16.6 billion. Despite its size, however, the farm loan market is small in relation to the total financial market in Canada. Consequently, the market for farm loan funds is closely interlinked with the other components of the financial markets.

This publication is intended to provide an overview of the Canadian financial system with emphasis on the farm loan funds market. The contribution of private lending institutions and the federal and provincial governments in agricultural lending is reviewed.

By examining the mechanisms by which farm loan funds are made available as well as the participants in the farm loan funds market and the various programs offered for farmers, it is hoped that this second issue of "Farm Credit in the Canadian Financial System" will be of benefit to those interested in agricultural finance.

A third issue of "Farm Credit in the Canadian Financial System" is planned. Comments and contributions should be forwarded to Economic and Liaison Services, Farm Credit Corporation, P.O. Box 2314, Postal Station "D", Ottawa, Ontario, K1P 6J9.

An Introduction to the Financial System

The financial system in Canada is a complex of markets, institutions and financial instruments which affects all individuals and sectors of the economy. The financial system serves three roles in the economy. It provides a) a payments mechanism for everyday transactions, b) a means to channel funds from savers to borrowers and for savers to vary the type of assets they hold, and c) a vehicle for the government to exercise control over real output and employment in the economy.

The payments mechanism includes the actions of the Bank of Canada in issuing bank notes and the banks, credit unions and trust companies in issuing chequeable deposits. The most visible and perhaps most important function of chanelling funds from savers to borrowers (termed financial intermediation) is exercised by diverse and numerous institutions such as banks, credit unions, trust companies, government financial institutions, mortgage companies and security markets. Government control of the economy is exercised through the financial system by concentrating primarily on its actions to regulate the money supply and interest rates.

Financial Intermediation

Financial intermediation, a basic component of the financial system, is the process of transferring funds from surplus spending units in the economy to deficit spending units. The institutions performing this function are termed financial intermediaries (Figure l).

Financial intermediation performs several roles in the financial system. Intermediaries pool the funds offered by savers and offer them in quantities to meet the needs of borrowers. They also provide liquidity to suppliers of funds by allowing savers to withdraw their savings from the market without requiring the recall of the funds held by borrowers. In addition, the financial intermediation process pools the risk of individual loan contracts and shifts much of the risk from the saver to the financial intermediary.

Central to the efficient operation of the financial system is the interaction of various types of markets: primary and secondary markets, debt and equity markets and the money and capital markets.

Primary Versus Secondary Market
A *primary market* exists for the initial purchase and sale of financial instruments. For example, the initial offering of common stock by a corporation wishing to borrow money represents a primary market activity. The borrowing corporation offers shares representing partial ownership of the company, which can be either sold directly to savers or to one or more financial institutions. In return, the borrower receives funds from savers and institutions. This initial purchase represents a primary market activity.

Subsequent sales and purchases of the shares of a corporation are termed *secondary market* activity. The secondary market for financial instruments allows investors to adjust their asset portfolios to meet changing liquidity needs, to adjust to changes in relative investment risks, and to respond to the profitability of investment instruments. The degree of secondary market activity has no direct influence on the funds available to the corporation which initiated the financial instrument in the primary market. Of course, there are indirect effects on the value of the company as share prices respond to the degree of secondary market activity. The Canadian stock exchanges are the best known secondary market intermediaries.

Debt Versus Equity Markets
The nature of the financial instruments which constitute the flows between the financial system participants provide a further classification of the market. Funds can be provided to a business by trading a creditor's claim against the assets of the business for funds. Alternatively, a business may acquire funds by giving up some ownership through the transfer of shares to people and institutions with surplus funds.

Debt instruments are characterized by their stated interest rate and maturity date. Common examples are bonds, notes, mortgages, commercial paper, etc.

Equity instruments generally do not have a fixed interest rate or maturity date. In some cases, dividends are paid which can fluctuate with business profitability or management decisions. Income to the holder of the instrument includes anticipated capital appreciation in the value of the asset. Stocks are a common equity market instrument.

Businesses often acquire their required funds through a combination of debt and equity market instruments. Some financial intermediaries such as the Canada Development Corporation (CDC) will provide financing to businesses through debt instruments such as a mortgage and concurrently take an equity position which provides an additional source of funds and more flexibility to the business.

Money Versus Capital Markets
Perhaps a more fundamental classification within the financial system is the distinction made between the money and capital markets. The money market generally deals in instruments with a maturity of three years or less. This is perhaps the most important single component of the financial system.

The *money market* provides an important link between the monetary authorities and the financial system. It is the primary mechanism by which the government, through the Bank of Canada, can affect the money supply, interest rates, and therefore the rate of real growth and employment in the economy. As well, the money market absorbs the day-to-day pressures of adjustment that cannot be handled through the normal financing channels.

Participation in the money market is currently limited to 13 dealers such as Dominion Securities Ames, Wood Gundy and Richardson Securities, which have lines of credit with the Bank of Canada. The main instruments competing in this market are treasury bills, finance company and commercial paper, bankers' acceptances, provincial government paper and large denomination deposits of chartered banks. Paper refers to short-term notes sold by a borrower which are normally secured by the borrower's credit standing.

The *capital market* trades in instruments with an initial maturity of greater than three years. This is the larger market in terms of the number of participants and the direct interaction with and institutions in society. The most common instruments are stocks, bonds, debentures and mortgages.

Farm Loan Funds in the Financial Markets

Loan funds required by the agricultural community for expansion and development are obtained from various institutions involved in the financial intermediation process. Most funds are provided through debt instruments rather than the sale of equity instruments. Intermediaries providing agricultural credit include government lending institutions, chartered banks, near banks and others. Private individuals also directly assist in financing the agricultural sector through vendor-held mortgages and notes.

Financial intermediation by governments in agricultural financial markets is direct and indirect. Direct intermediation occurs where the government agency borrows funds from surplus spending units (savers) and lends to deficit spending units (farm borrowers). Indirect intermediation occurs where the government lending institution is funded by general government revenues and these funds are loaned to farm borrowers. Indirect intermediation also occurs when governments initiate loan guarantee programs to stimulate increased lending activities by chartered banks and other institutions to the farm sector.

Farm loans by chartered banks are only about 6.5 per cent of all general loans. Consequently, farm borrowers and the lenders who serve them cannot acquire farm loan funds independently of other components of the financial markets. Thus, the market for farm loan funds is closely interlinked with other sectors of the economy.

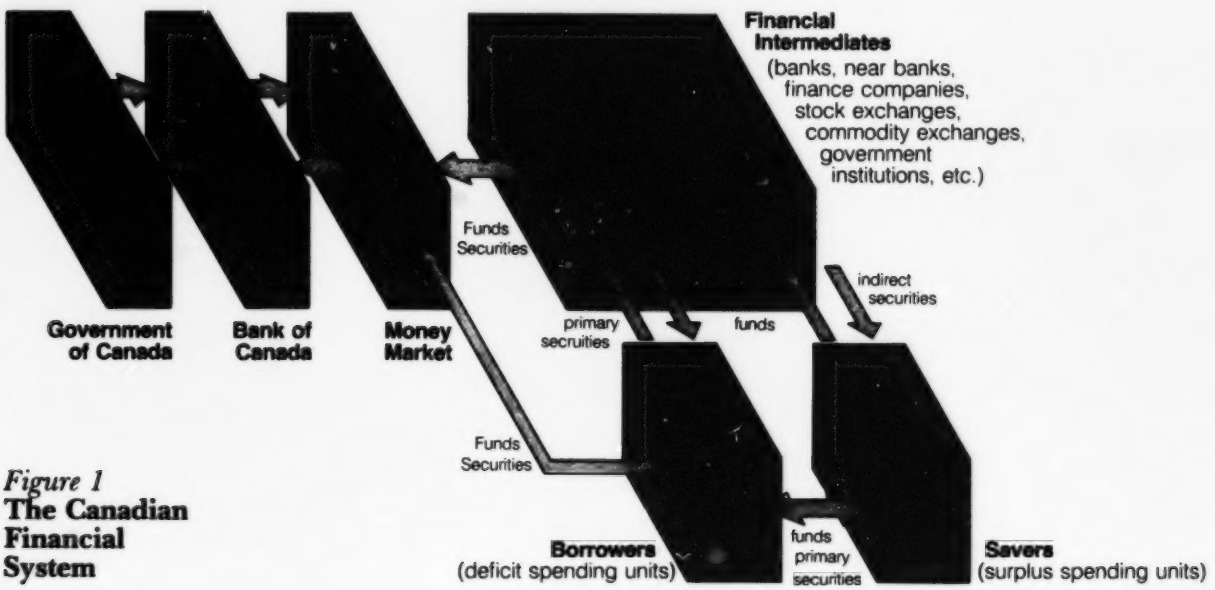


Figure 1
The Canadian Financial System

Of the total farm debt outstanding in 1980, 47.6 per cent was long term, 30.0 per cent was intermediate term and 22.4 per cent was short term.

The chartered banks are the largest source of farm loan funds with 36.5 per cent of the total loan funds outstanding in 1980 (Figure 2). Of the 8.9 per cent extended by financial institutions through government guaranteed loans, about seven per cent was extended by chartered banks giving them 43.5 per cent of all loan funds outstanding in 1980.

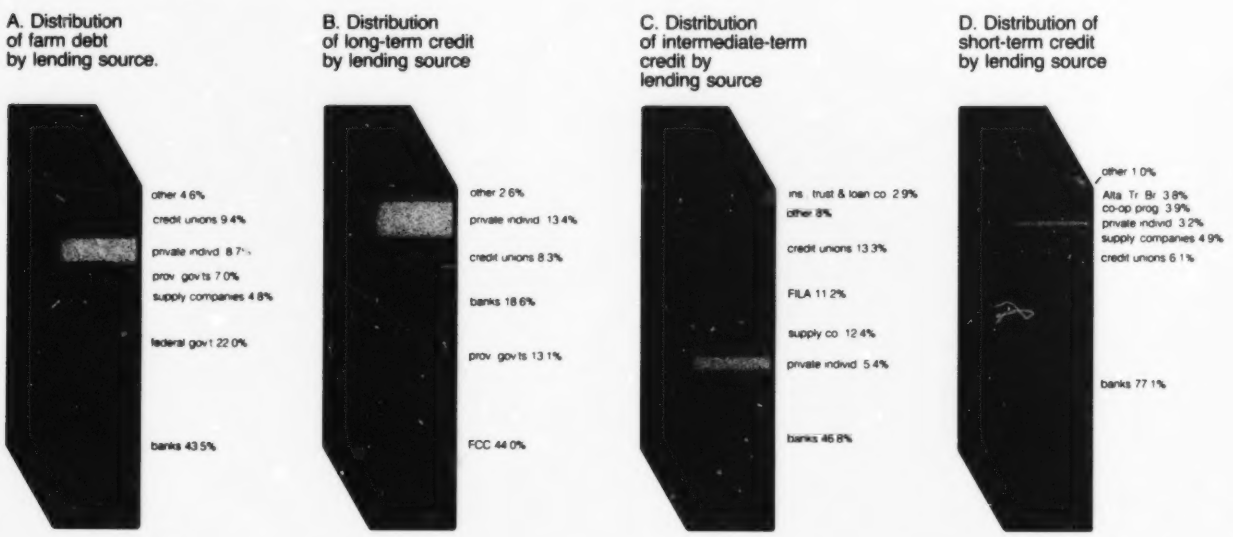
Almost three-quarters of the total loan funds are outstanding to the chartered banks and the federal and provincial governments. The federal government programs – the Farm Credit Corporation, the Veterans' Land Administration, Farm Improvement Loans and the Federal Business Development Bank – have provided 22 per cent of all farm loan funds outstanding.

The credit unions and caisse populaires are the next major source of loan funds, with some 9.4 per cent of the total credit outstanding to farmers. Much of the long-term credit has been provided by caisse populaires in Quebec under the provincial guaranteed loan program.

Private individuals supply 8.7 per cent of the total loan funds used in farming while provincial governments have about seven per cent of the total farm credit outstanding. However, many of the provincial governments also have guaranteed loan programs. In 1980-81, over $800 million was extended by financial institutions under provincially guaranteed loan programs. Insurance, trust, loan, finance and supply companies together have over six per cent of the outstanding farm credit. The balance of loan funds is provided by Alberta Treasury Branches, stores, dealers, cooperatives and others.

Of the total farm debt outstanding in 1980, 47.6 per cent was long term, 30.0 per cent was intermediate term and 22.4 per cent was short term. The federal government, through the Farm Credit Corporation, has been the major supplier of long-term credit for real estate although its role has declined in recent years, while the chartered banks are the major source of intermediate- and short-term farm credit (Annex 1).

Figure 2
Source of Farm Credit Outstanding (1980)[1]



[1]Source: Annex 1, Table 2

Historical Perspective

The Canadian financial system was established in 1685 with the issue of playing cards as the first official paper money of New France. Subsequently, the shortage of a medium of exchange was resolved in 1817 with the formation of the first Canadian bank, the Bank of Montreal. In 1820, the Bank of New Brunswick became the first "chartered" bank. The Bank of Montreal handled the government's financial affairs and acted in a similar capacity to the present Bank of Canada. Each individual chartered bank issued its own paper currency and therefore controlled its money supply. By 1874, a peak of 51 active banks was reached. Since then, there have been as few as nine although there are currently 70.

An important milestone in the development of Canada's financial system was achieved with the establishment of the Bank of Canada in 1935. This gave the government more control and involvement in the economy and in issuing paper currency.

Canada now has a well-developed financial system which has a broad range of financial assets and institutions with the capacity to handle large flows of funds quickly and efficiently. The Bank of Canada occupies a central position, controlling the level of chartered bank cash reserves and acting as a lender of last resort to both chartered banks and the money market dealers. Currently, 70 chartered banks operate under the federal Bank Act, and one chartered savings bank, the Savings Bank of

Montreal, operates under the federal Quebec Savings Bank Act. There are some 3,500 local credit unions and caisses populaires, operating in regional or provincial centrals under provincial legislation. Some 148 trust and mortgage loan companies operate under federal or provincial charters. There are about 260 federally registered fire and casualty insurance companies and 157 life insurance companies, as well as a large number of mutual funds with investments including gold, treasury bills, stock options, bonds, etc.

In addition, several distinct types of *secondary markets* exist in which previously issued assets change hands. These include the five stock exchanges in Toronto, Montreal, Vancouver, Calgary and Winnipeg and a nationwide over-the-counter market operating out of the offices of the major investment dealers. The system also consists of a well-developed bond market, the recently developed secondary mortgage market, a commodity market in Winnipeg and financial futures markets in Winnipeg, Montreal and Toronto.

The 1970's have seem dramatic changes in the Canadian financial system. New types of institutions performing specialized functions have emerged. Institutions such as real estate investment trusts (REIT), mortgage investment companies (MIC), the Caisses d'entraide in Quebec, retirement savings plans, revolving charge account companies and new types of mutual funds such as the oil drilling fund have all risen to prominence since 1970.

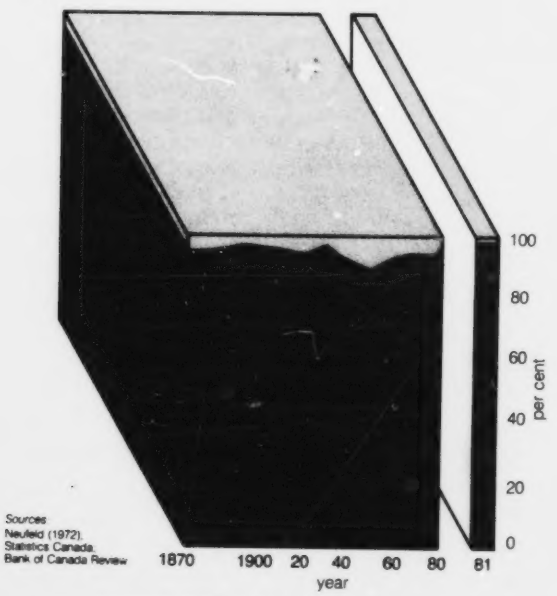
From 1870 to 1967, the banks' position in the financial system declined (Figure 3). Since 1967, however, their growth has increased due to new mortgage lending activites that were not permitted prior to the 1967 revisions to the Bank Act. The government's share in the system has grown rapidly as a result of the expansion into the mortgage market in the mid-1970's of the Central Mortgage and Housing Corporation (now Canada Mortgage and Housing Corporation) and of the public pension plans (both civil service pensions and the Canada and Quebec Pension Plans). Significant growth has also occurred in the private sector trusted pension plans and in the financial assets of credit unions.

Of the financial markets operated by financial intermediaries, the mortgage market has become particularly significant to homeowners and farmers. It involves most private and government financial intermediaries (Figure 4). Trust and mortgage loan companies still dominate the mortgage market, although they now occupy a smaller market share due to the banks' increased activities.

During the 1970's, leadership of the credit unions with life-insured open mortgages brought innovations and competition into the mortgage market. In the last few years, volatile and rapidly rising interest rates shortened the terms of the mortgage market with one-, two- and three-year term mortgages becoming common and floating interest mortgages gaining in popularity. Graduated payment mortgages and mortgages with weekly payments have appeared in the market as well as reverse income mortgages, which are mortgages for which a lender makes regular payments to the borrower and at the end of the term the borrower owes the lump sum.

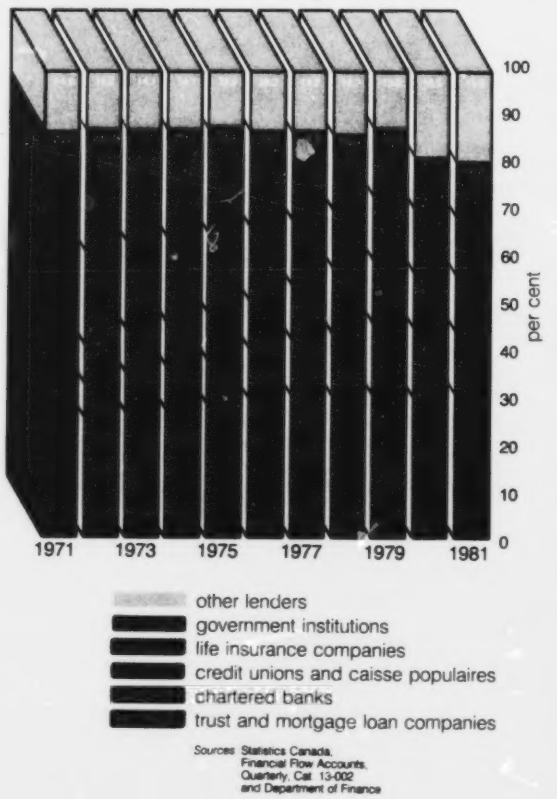
The most important development in the mortgage market has been the growth of a secondary market, which allows financial institutions to originate mortgages and pass them along to other institutions or investors who supply the funds to the borrowers. In this way, small financial institutions can enter the mortgage market in a big way without a large pool of funds while small investors can enter the market by pooling their funds. Essentially, barriers to entry are reduced with the efficient operation of a secondary mortgage market.

Figure 3
Shares of Total Financial Intermediary Assets 1870-1981



Sources
Neufeld (1972),
Statistics Canada,
Bank of Canada Review

Figure 4
Distribution of Mortgage Loans Among Financial Institutions



Sources Statistics Canada,
Financial Flow Accounts,
Quarterly, Cat. 13-002
and Department of Finance

The Bank of Canada

The Bank of Canada occupies a control position in the Canadian financial system, and as such is often referred to as the central bank. With its monopoly over paper currency, its operations have a significant impact on the financial system.

The Bank of Canada began operations in March 1936 as a private bank with 12,000 individual shareholders. By 1938, the government had achieved nationalization by issuing new shares and eventually purchasing all outstanding private shares. The Bank of Canada is a Crown corporation with the Minister of Finance, on behalf of the Government of Canada, as the sole shareholder. All profits from the Bank's operations accrue to the government. The Bank's management is controlled by a Board of Directors (Trustees) appointed by the government for three-year terms and a Governor and Deputy Governor appointed for seven-year terms. The Deputy Minister of Finance sits on the Board as an ex-official member.

Fiscal Agent for the Government

The Bank of Canada as fiscal agent for the Government of Canada manages the government's cash position, operates its chequing account, makes arrangements for the issuance and retirement of government debt and handles the government's foreign exchange transactions.

Lender of Last Resort

The Bank of Canada has the facility to act as a lender of last resort for the chartered banking system. On occasion, when chartered banks are short of cash and cannot raise funds in traditional markets, they can borrow from the Bank of Canada. This privilege is seldom used because its cost is higher than that of normal sources of finance. The Bank of Canada is empowered to advance funds to the Government of Canada and the provincial governments. However, the Bank has declined to become involved in provincial government finances.

Monetary Manager

The primary function of the Bank of Canada is to formulate and execute monetary policy by managing the supply of money and credit which in turn influences the level of interest rates in Canada. The Bank employs several mechanisms to perform this important role.

Control of Reserve Requirements of the Chartered Banking System

The Bank Act, which was amended in 1980, requires that by September 1984 banks hold primary or *cash reserves* at least equal to 10 per cent of Canadian-dollar demand deposits and three per cent of Canadian-dollar term and notice deposits with the first $500 million of notice deposits requiring a two per cent reserve. These reserve requirements are being gradually reduced from 12 per cent and four per cent, respectively. However, some deposit liabilities subject to reserves are excluded. There is also a three per cent reserve requirement on Canadian residents' foreign currency deposits with branches in Canada. The cash reserves must be in the form of non-interest bearing Bank of Canada notes and Bank of Canada deposit balances. Banks are also subject to a *secondary reserve* requirement which can be as high as 12 per cent and is currently four per cent of total statutory deposits. The level of these reserves can be changed. However, this method is seldom used to change the money supply.

To understand how the cash reserve requirement can control the money supply, it is necessary to understand how money is created by the banking system. Essentially, the money supply increases when banks make loans and decreases when customers repay their loans. For example, if a business negotiates a $1 million loan from a bank, the bank credits the business' chequing account by $1 million. The deposits, and therefore the money supply, have increased by $1 million. If the business withdraws this money to pay bills, eventually it will re-enter the banking system as deposits by other individuals.

The cash reserve requirements imposed by the Bank of Canada puts a limit on this credit or money creation process. With a cash reserve requirement of 10 per cent, a bank with demand deposit liabilities of $100 million must have at least $10 million on deposit with the Bank of Canada. If the bank has $12 million in reserves, it could make additional loans of $2 million. The objective of a bank is to minimize reserve holdings as they are non-interest earning, while loans are productive interest earning assets to the bank.

If the Bank of Canada wishes to expand credit (money), it can decrease the cash reserve requirements of the chartered banks. Reduction of the reserve rates from 10 per cent to eight per cent, when borrowing $100 million for example, would reduce the required reserves to $8 million. If borrowers are available, loans of $2 million would be made for the creation of $2 million.

The $2 million of borrowed money is presumably deposited in other banks. Of these new deposits, eight per cent is required as reserves and the balance can be loaned out. The process continues to repeat itself as new loans are redeposited in banks and new credit is created. If all money is revolved within the banking

The most frequently used tool of the Bank of Canada in its role as a monetary manager is its open market operations where, mainly through the purchase and sale of securities, adjustments to the money supply can be made.

system, a one dollar change in reserve will eventually multiply to several dollars of money stock.

Open Market Operations
The most frequently used tool of the Bank of Canada in its role as a monetary manager is its open market operations where, mainly through the purchase and sale of securities, adjustments to the money supply can be made. The purchase of Government of Canada securities by the Bank of Canada increases the money supply while the sale of securities decreases the money supply. When buying outstanding government securities from the public, the Bank of Canada issues cheques (drafts) drawn on itself for payment. The public deposits these in chartered banks, increasing their deposit liabilities. The chartered banks return these cheques to the Bank of Canada which credits their cash reserves allowing them to acquire more loans until the reserve ratio is re-established.

Other operations
The sale and repurchase of treasury bills in the money market by the Bank of Canada can affect the money supply. Such transactions may be used by the Bank for cash management purposes. To illustrate, the Bank of Canada may wish to adjust its cash position by selling treasury bills out of its portfolio. In payment for these bills, the chartered banks' cash balances are reduced by the amounts of their respective purchases, thereby reducing their cash ratio below the required level. To restore these reserve ratios, the chartered banks must sell securities to the public which cause bank deposits to fall.

The issuing of new government bonds can lead to an increase in the money supply, but only to the extent that the purchase is made by the Bank of Canada. The amount bought by the public has no effect on the money supply.

Control of Interest Rates
The Bank of Canada controls or affects interest rates in two ways. First, it can directly affect interest rates by adjusting the bank rate, which is the rate at which chartered banks pay the Bank of Canada for infrequent loans borrowed for one or more weeks. Changes in the bank rate reflect Bank of Canada policy on the direction of general interest rates required to deal with problems of inflation, unemployment, balance of payments or the value of the Canadian dollar. Generally a change in the bank rate is closely followed by a similar adjustment in the chartered banks' prime rates (rates charged to their larger and most preferred customers) (Figure 5).

Second, the Bank of Canada's open market operations and actions to raise funds for the government also have a direct impact on Canadian interest rates. The purchase of securities (bonds, treasury bills, etc.) usually places upward pressure on interest rates while the sale of securities places downward pressure on interest rates.

Changes in the bank rate became more of a conscious tool of monetary management in the mid 1950's when the rate was changed seven times in the period February 1955 to October 1956. For most of the period since the founding of the central bank, the bank rate has been fixed from time to time by the Bank of Canada. However, in November 1956, the rate was "floated" or set each week at one-quarter of one per cent above the average tender rate on 91-day treasury bills. The central bank's control over the bank rate, while less obvious under a floating rate system, was no less real. The floating system ended in June 1962 as a result of a foreign exchange crisis.

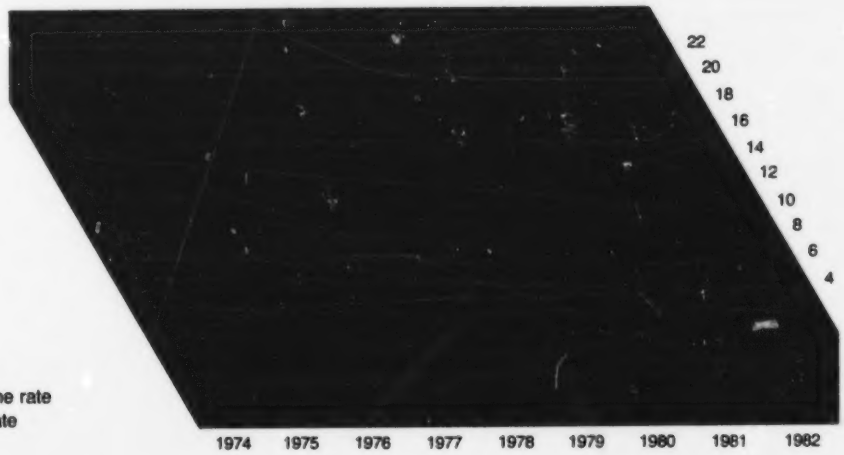
In March 1980, the central bank reverted bank to the floating rate, again fixed on the yield of 91-day treasury bills. Interest rates generally have followed those of the U.S. economy due to the close economic ties between the two countries and the interlocking nature of financial markets. U.S. interest rates have been generally lower than Canadian interest rates.

Moral Suasion
Closely related to the effect on interest rates is the role the central bank has in the financial system through "suggestions" or directions it gives from time to time to the chartered banks. This informed control or moral suasion results in "voluntary" compliance with the wishes of the Bank of Canada. Particular forms of moral suasion are, for example, selective credit controls, credit ceilings, or the emphasis on financial assistance to one sector (i.e. small business loans).

Effectiveness

The importance of the Bank of Canada within the Canadian financial system cannot be over emphasized. As a fiscal agent for the government, it acts as one of the larger participants in Canada's capital markets, thereby influencing the demand for and the price (interest rates) of funds. As a monetary manager, the central bank can effectively influence the money supply through its open market operations, its control over cash reserve ratios of the chartered banks, its participation in the money market and by adjusting the bank rate. With such an impact on the Canadian financial system, and therefore the economy, the Bank of Canada's actions often come under attack, particularly when interest rates are maintained at high levels, restrictive credit controls are implemented or when it acts to maintain the exchange value of the Canadian dollar.

Figure 5
Comparison of Canadian and U.S. Interest Rates



Bank of Canada rate
Canadian chartered banks' prime rate
U.S. federal reserve discount rate

Banks and Near Banks

Of the hundreds of financial intermediaries in Canada, a few are distinguished by their authority to accept deposits as their primary source of funds. These deposit-taking institutions are the chartered banks, savings banks, cooperative banks (credit unions and caisses populaires), Alberta Treasury Branches, trust companies and mortgage loan companies. They are further distinguished by their capacity to create money by extending loans and to destroy money by accepting loan payments. Although near banks provide similar services to chartered banks, they are differentiated by their reserve requirements.

Chartered Banks

The Canadian banking system consists of 70 Schedule A and B banks – incorporated or licensed by the Canadian government and operating under the authority of the Bank Act. There are 12 Schedule A banks of which 11 are fully operational with the twelfth bank, Western and Pacific Bank, only recently approved as a Schedule A bank (Table 1). Of the 58 Schedule B banks, 57 are foreign bank subsidiaries and the other is a new domestic bank.

Both classes of banks have the same general powers, restrictions and obligations. However, shares of Schedule A banks are widely held and no person or associated group is permitted to hold more than 10 per cent of the voting stock and non-resident ownership of a bank's shares cannot exceed 25 per cent of the bank's voting shares. Schedule B banks have several additional restrictions imposed by the Bank Act and are either foreign bank subsidiaries or new domestic banks. They are not permitted to have domestic assets totalling more than 20 times authorized capital and may have only a head office and one branch office unless additional branches are authorized by the Minister of Finance. Foreign bank subsidiaries collectively are not permitted to have assets in Canada exceeding eight per cent of total domestic assets of all banks in Canada.

The five largest Canadian banks – the Royal Bank, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia and the Toronto-Dominion Bank – are ranked in size with the largest banks in the world. Particularly significant is the international component of these banking activities, including a large number of foreign bank branches and foreign controlled subsidiaries and affiliates.

Bank Legislation

The chartered banks operate under the authority of the Bank Act, which is normally reviewed every decade. The Bank Act currently in force was revised in 1980 and prior to that in 1967.

Two amendments to the Bank Act in 1967 are particularly significant. The *abolition of the interest rate ceiling* on loans has provided flexibility for the banks, particularly when rates on their liabilities (deposits) are high.

The second amendment permitted banks to make *mortgage loans*. The increase in National Housing Act (NHA) and conventional mortgages and, since 1977, agricultural mortgages is due to this change.

The 1980 amendments to the Bank Act made several major changes to the Act including the addition of Schedule B chartered banks. Banks are now also allowed to offer leasing and factoring services, provided they do it through a subsidiary and can carry out mortgage lending and venture capital activities through subsidiaries. The new Act provides for the establishment of a Canadian Payments Association which should lead to a more efficient payments processing system and provide direct participation for near-banks with deposit-accepting operations to enhance their competitive position.

Branch Banking

The banking system of Schedule A banks is organized on a branch system comprised of a head office, regional offices and a multitude of branch offices operating across the country. Normally, each branch conducts full-scale banking services, referring to regional or head office only on policy matters and to obtain approval for large loans. The banking system in the U.S. is essentially comprised of unit or independent banks with some branch banking where state laws permit.

Canadians are bank-oriented with almost every Canadian having a bank account and many with several accounts. As of December 31, 1981, there were 7,378 Canadian bank branches. This represents one branch for every 3,300 Canadians. The comparable figure for the U.S. is about 6,300 people per branch.

The largest five chartered banks held 90 per cent of the total bank assets in 1981, compared to 93 per cent in 1970, indicating that the degree of concentration among the chartered banks has stabilized. However, with the licensing of many new banks the level of concentration is expected to decline with increased competition.

Sources and Use of Funds

The major sources of funds for the banking system are personal savings, demand deposits and notice deposits such as certificates of deposits and savings certificates. Deposits by the Government of Canada, provincial governments, other banks and near banks are also important sources of funds. Various short-term investment

Local autonomy is a vigorously maintained principle of the cooperative bank movement.

instruments and debentures issued by the chartered banks also contribute to their funding.

The chartered banking system invests its funds in general consumer loans, residential mortgages, agricultural loans, a variety of business loans and loans to provinces and municipalities. Since 1977, the larger chartered banks have actively expanded their farm mortgage portfolios. More liquid investments include day-to-day loans, Bank of Canada deposits and notes, treasury bills, etc.

From time to time, the federal government has introduced legislation to induce banks and other designated financial institutions to make loans to certain sectors of the economy without incurring unnecessary risk and without charging higher than ordinary interest rates to compensate for the higher risks. Such legislation includes the Farm Improvement Loans Act, the Small Business Loans Act, the Canada Students' Loans Act and the Small Business Bond.

Savings Banks

Although savings banks existed in Canada before all other financial intermediaries except the commercial banks and the fire insurance companies, only one exists today, the Montreal City and District Savings Bank. It was incorporated in 1846 and operates some 137 branches, primarily in Quebec. With assets of $4.18 billion as of October 31, 1981, it ranks larger than all but six of the chartered banks. This bank is regulated under the provisions of the Quebec Savings Bank Act. It is subject to a cash reserve requirement of five per cent of deposits and a secondary reserve requirement of 15 per cent. Until the revision of the Bank Act in 1967, the Quebec savings banks were the only banks or near banks which could extend both mortgage and personal loans.

Sources and Use of Funds

The most important source of funds is personal savings. Other sources include the Government of Canada, provincal government and chartered bank deposits. Funds are used for investment in mortgages, loans and provincial, municipal and Government of Canada securities.

Cooperative Banks

The cooperative banks, credit unions and caisses populaires are non-profit seeking firms, which usually have autonomous, single-office operations. They accept deposits from and lend money to their members. Cooperative banking movements started in Quebec at the turn of the century with the Desjardins Caisses Populaires movement and in Ontario and the Maritimes in the 1930's with the Antigonish movement. Although the cooperative movement was originally rural, the urban influence has grown and now is dominant.

The growth of the cooperative banks has been significant in the past decade. Their assets have grown from $3.8 billion in 1968 to $32.2 billion in 1981. There are 3,466 local credit union and caisses populaires with some 4,500 branches.

Local autonomy is a vigorously maintained principle of the cooperative bank movement. However, the local credit unions or caisses populaires generally belong to central credit societies. These provincial centrals take on some of the characteristics of the central bank for groups of cooperative banks. They provide financial advice, do much of the system's investing in stocks, bonds and other marketable securities and act as lenders of last resort. In Quebec, there are five central organizations of caisses populaires. Individual caisses populaires are grouped into regional federations and then are joined together into a central federation. The centrals and federations provide educational services for local officers as well as public relations activities and lobbying for the cooperative banking movement.

Sources and Use of Funds

The vast bulk of the cooperative banks' funds are derived from two sources – the capital subscribed as ownership shares by members and fixed interest deposits. The caisses populaires and credit unions can be distinguished in this regard. Shares take the form of share-deposits on which interest is payable.

The primary use of funds is for loans to members, either as mortgages or other loans. Surplus funds are invested in securities, usually through the centrals. Generally, the credit unions have been less conservative than the caisses populaires, maintaining lower cash reserves and investing in more consumer-type loans. Cooperative banks have always invested in rural communities with a significant increase in their farm mortgage portfolio since 1975.

Cooperative banks normally pay a higher interest rate on their sources of funds and charge less on their loans than the chartered banks. This lower margin can be tolerated due to usually lower administrative costs and lower rates of default.

Trust and Mortgage Loan Companies

A. Trust Companies

Trust companies can be described as two businesses within the same organization. First, they act as trustees, managing or administering estates and other trust funds and second, they are true financial intermediaries, collecting funds through deposits and investing these funds in the pursuit of profit. Trustee powers are the major distinguishing feature of trust companies from chartered banks. As well, trust companies are controlled by provincial and federal legislation and are not bound by the restrictions of the Bank Act.

Sources and Use of Funds

The financial intermediation function or transfer of funds from savers to borrowers of trust companies is similar to the role played by the chartered banks. Although trust companies are not allowed to borrow

Trust companies are sometimes described as warehouses for mortgages.

money, they can accept funds on deposit "held in trust", a distinction without economic significance. In a sense, the trust companies have always been in the business of banking.

The major sources of funds for these financial institutions are chequing and saving deposits and, more significantly, term deposits and guaranteed investment certificates. These latter instruments are usually sold in denominations of $1,000 or more with the funds left for prescribed terms at predetermined interest rates. Most of these instruments are in the one- to six-year maturity range. Both individuals and corporate savers have traditionally purchased these assets.

Trust companies are not required by law to hold cash deposits with the Bank of Canada. Their cash holdings therefore are kept to a working minimum. In addition to cash, substantial quantities of short-term marketable securities and short-term deposits are held with chartered banks and other trust and loan companies. However, the most significant use of funds has been for conventional and NHA mortgages. A small number of trust companies has also invested in farm mortgages, particularly in Ontario. Trust companies are sometimes described as warehouses for mortgages. The emphasis on mortgages has resulted from the low degree of bankers' risk or need for liquidity due to the fixed nature of their sources of funds.

B. Mortgage Loan Companies

Mortgage loan companies are practically indistinguishable from trust companies except that the latter are authorized to conduct estate and trust agency business. Mortgage loan companies tend to be localized and rely more heavily upon the issue of debentures than deposits.

Sources and Use of Funds

Mortgage loan companies accept both chequeable and non-chequeable deposits from individuals. However, most of their funds are generated through the issue of longer term financial instruments, particularly debentures with an original term to maturity of one to six years. These debentures are essentially bonds which are a general claim on the assets of the company but do not involve any specific assignment of assets. In addition, substantial amounts of money are borrowed from banks, trust companies and other institutional lenders.

As with the trust companies, mortgage loan companies do not find it necessary to hold large amounts of liquid assets due to the nature of their sources of funds. Again, the most significant investment assets are mortgages, particularly higher yielding, conventional mortgages. Additional long-term assets are held in the form of government and corporate securities.

Significant growth has occurred in the assets of trust and mortgage loan companies. Assets of these companies grew from $9.1 billion in 1969 to $60 billion in 1981. Further growth will be influenced by other developments in the mortgage markets, particularly the actvities of the Canada Mortgage and Housing Corporation and the chartered banks, and the prosperity of the housing and construction sectors.

Table 1
Assets of Schedule A Canadian Banks

Banks	Assets Oct. 31, 1981 $000,000	No. of Branches Dec. 31, 1981	Date of Incorporation
Royal Bank of Canada	85,359	1,493	1871
Canadian Imperial Bank of Commerce	65,698	1,614	1961[1]
Bank of Montreal	62,374	1,307	1822
Bank of Nova Scotia	49,067	1,030	1832
Toronto-Dominion Bank	43,249	1,017	1955[2]
National Bank of Canada	19,767	737	1979[3]
Mercantile Bank of Canada	4,013	15	1953
Continental Bank of Canada	3,583	47	1966
Bank of British Columbia	3,012	50	1977
Canadian Commercial Bank	1,475	9	1975
Northland Bank	514	7	1975
Western and Pacific Bank[4]	—	—	1982
Total	**$338,112**	**7,326**	

Notes:
[1] Amalgamation of the Canadian Bank of Commerce and Imperial Bank of Canada which had been in existence since 1867 and 1875 respectively.
[2] Amalgamation of the Bank of Toronto incorporated in 1855 and the Dominion Bank incorporated in 1869.
[3] Amalgamation of the Provincial Bank of Canada incorporated in 1977 and the Bank Canadian National incorporated in 1860.
[4] Although the Western and Pacific Bank has been licensed, as of September 15, 1982, it had not received approval to commence business as a Schedule A bank.

Other Financial Intermediaries

In addition to the classes of financial institutions which have been examined, there are several other groups of institutions which perform specialized intermediation functions and which have some impact on the agricultural sector. These institutions fall into the categories of investment companies, pension funds, life insurance companies, sales, finance and consumer loan companies and private individuals.

Investment Companies

Investment companies administer mutual funds or "open-end" funds, which first appeared in Canada in 1932, and investment trusts or "closed-end" funds, which appeared just after 1900. These companies sell securities to individuals or institutions and they use the proceeds to invest in other financial assets. The claims they sell and buy are almost entirely equities or stocks.

A *mutual fund* (open-end) is unique because it sells shares or units to the public in blocks or on a periodic investment plan at a price equal to the per share net asset value of the fund. The shares can be redeemed at any time at the net asset value. The value of the units or shares fluctuates with the value of the equities held by the mutual fund.

Mutual funds experienced a rapid period of growth in the 1960's with assets increasing by close to 300 per cent. However, the growth in the first half of the 1970's was slight and in some years negative although since 1977 there has been substantial growth (Table 2). Since most of the assets of mutual funds are common stock, the fortunes of these funds are closely tied to this market.

Closed-end *investment funds*, like mutual funds, spread the risk for individual investors who wish to hold stock market instruments. They are closed-ended because more shares or units are not automatically issued for purchase nor are they necessarily redeemed on demand. Rather, their shares trade on the market in the same way as other equity shares.

Pension Funds

Pension funds have become a major reservoir for consumer saving and a major source of financing for provincial and municipal governments. Besides the Canada Pension Plan operated by the federal government, there are in excess of 4,000 trusteed pension plans.

In the trusteed pension plans, accumulated contributions are held in trust against future payments. These trust funds are held and managed by trust companies, by individual trustees, or by a pension fund society formed under provincial or federal societies legislation.

The growth in assets of these plans has been exceptional in the 1970's. Most of the trusteed pension funds have been invested in provincial and municipal bonds, with lesser amounts in Government of Canada bonds, Canadian stocks and mortgages. As such, certain pension funds form a source of self-financing for provincial and municipal governments.

Table 2
Assets of Selected Financial Intermediaries ($000,000)

Financial Institutions	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Investment companies (mutual funds)	2,704	2,901	2,837	2,819	2,767	2,801	2,761	3,019	3,565	4,011	4,559	4,962
Investment companies[1] (closed-end funds)	741	807	646	678	685	739	504	503	554	558	607	652
Trusteed pension plans	11,011	12,414	14,004	15,933	18,075	20,917	24,118	28,422	33,000	37,000	41,400	46,500
Life insurance companies[2]	14,622	15,544	17,027	18,604	20,072	22,300	24,576	27,301	30,270	33,687	37,629	42,456
Sales finance and consumer loan companies	5,502	5,595	6,282	8,161	9,521	10,323	11,073	11,908	12,825	14,201	14,054	14,818

Source: Financial Flow Accounts, Cat. No. 13-002 and 61-006, and Bank of Canada Review

[1] It is likely that the total activity of investment companies has not been recorded by the Financial Flow Accounts.

[2] Excludes assets held outside of Canada.

The Canada Pension Plan and the public service superannuation fund represent a substantial block of savings. There is close to $50 billion accumulated in pension plans administered by the federal government.

Pension plans are the fastest growing group of financial intermediaries in Canada.

Life Insurance Companies

Life insurance companies until the mid-1970's represented the largest pool of financial assets after the chartered banks. They perform a somewhat unique intermediation function. The different forms of life insurance policies can be viewed as savings instruments. The premiums paid are invested by the insurance companies in a wide range of assets, primarily mortgages, as well as bonds and common and preferred shares. It is important to note that life insurance companies are the largest private institutional lenders in the mortgage market.

Agriculture Canada statistics estimate that insurance trust and loan companies extended $6.6 million in long-term credit and $24.6 million in intermediate-term credit to agriculture in 1980. This could be a conservative estimate of their activity.

Life insurance companies were major lenders in the agricultural mortgage markets in the early part of this century. Debt moratorium legislation in the 1930's shook the confidence of institutional lenders such as life insurance companies and banks resulting in a withdrawal from the field.

Sales Finance and Consumer Loan Companies

According to the May 1977 survey of consumer finances, consumer debt stood at 22 per cent of income compared with 20 per cent in 1970 and 17.5 per cent in 1964. This increase can be attributed to many factors including changing attitudes toward credit, the availability of credit cards, rising incomes and limited effect at that time of interest rates on servicing short-term debt.

Between 1970 and 1981, the banks have risen to a dominant position in this field, increasing their share of the market from 47.3 per cent in 1970 to 67.8 per cent in 1981 (Table 3). This is primarily as a result of the introduction of automatic, precleared credit through Visa and Mastercharge and the increased willingness of banks to extend the term of personal loans.

Sales finance companies provide consumer credit by making credit available to business firms to facilitate the generation of sales. For example, car dealerships normally are associated with sales finance companies to provide credit to their customers. Sales finance companies of particular significance in agriculture are the credit corporations or subsidiaries of the major machinery companies. These firms specialize in providing credit to farmers through dealers to facilitate the purchase of farm machinery.

The primary source of funds of sales finance companies is finance paper issued in the money market. As well, some borrowings are made from chartered banks.

Supply companies which include sales finance companies are second to the chartered banks as the most important source of intermediate- and short-term credit for farmers. In 1980, the total short- and intermediate-term credit extended by supply companies was estimated at over $1 billion. The credit offered by these firms is often termed "dealer credit".

Consumer loan companies specialize in direct cash lending to individuals. Some of these firms are small operations with one or two offices, but several have large scale, nationwide branches. Generally, these companies offer relatively small loans to high-risk clientele who often have been unable to find credit from other sources.

Their primary sources of funds are share capital, term loans from banks and varying term debt issued in the open market.

Private Individuals

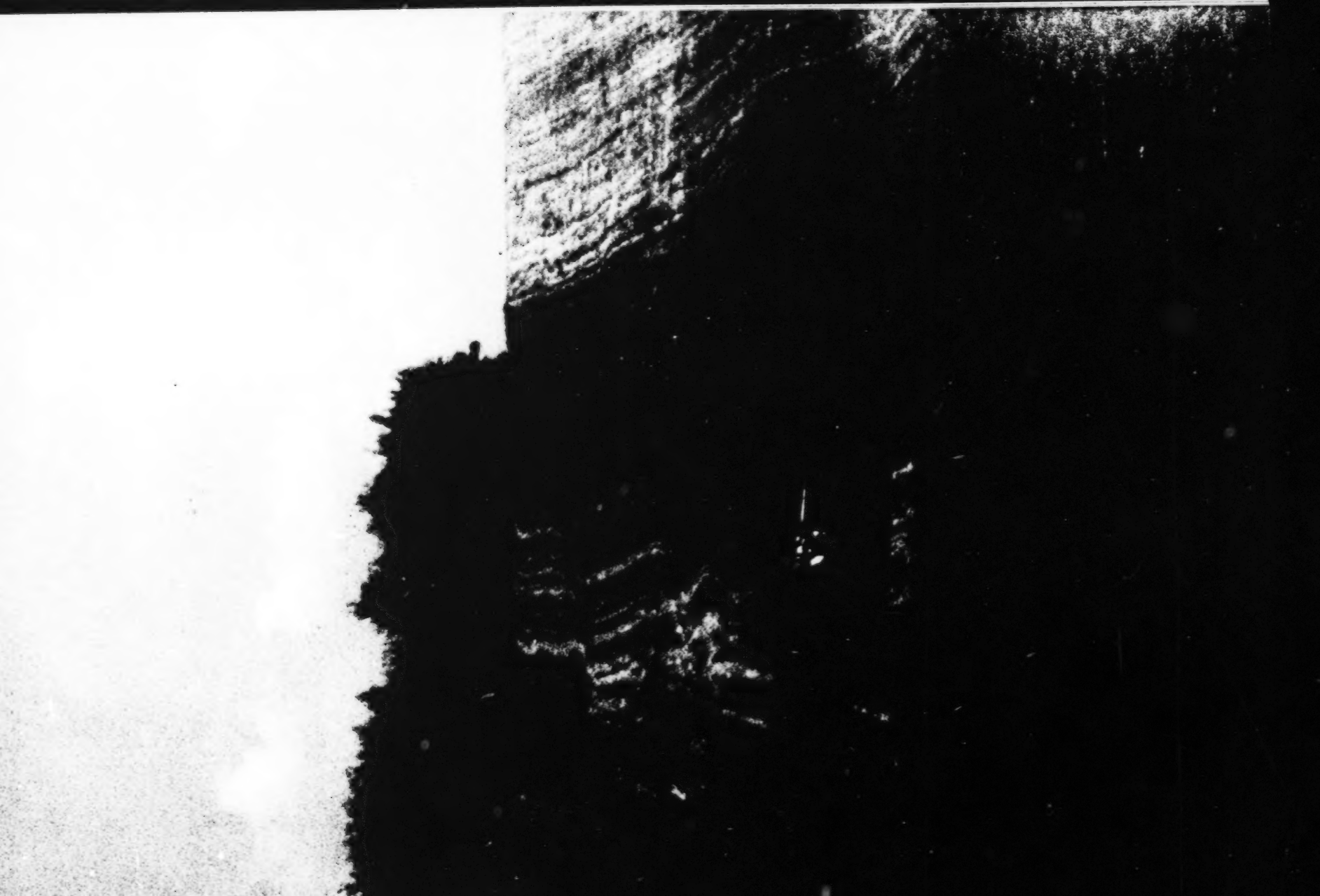
Often, financial intermediation can occur directly, between individuals, by-passing the host of specialized financial institutions which have evolved to perform this function. Where direct intermediation is possible, the costs are reduced since the administrative and related costs are presumably lower.

The amount of direct financial intermediation between individuals is restricted because the lender is often not willing to accept all the risks along with having his liquidity restricted. The actual amount of financial activity is not known as such transactions are not normally recorded and published. Agriculture Canada estimates that, in 1980, $296.2 million of long-term, $98.7 million of intermediate-term and $185 million of short-term credit was extended by individuals to the agricultural sector. This represents 14.9, 4.0 and 4.0 per cent of the respective markets, indicating that such financial intermediation is important to the agricultural credit markets, particularly the long-term credit market.

Table 3
Consumer Credit Balances Outstanding, by holder

	1970	1981
	— per cent —	
Banks (incl. charge cards)	47.3	67.8
Credit unions and caisses populaires	13.5	12.8
Sales, finance and consumer loan co.	25.7	6.6
Department stores	6.5	3.8
Life insurers' policy loans	6.9	4.9
Quebec savings banks	0.2	0.3
Trust and mortgage loan companies	—	3.9

Source: Bank of Canada Review, August 1982



Financial Intermediation in Agriculture

Chartered Banks and Credit Unions

Chartered banks have been engaged in agricultural lending with varying degrees of enthusiasm throughout this century. The economic depression of the 1930's dealt a severe blow to much of this enthusiasm, leaving most banks wary of agricultural lending, particularly long-term lending. Although there may have been attempts by provincial governments to stimulate chartered bank lending in agriculture after the depression, the first such stimulus from the federal government came with the Farm Improvement Loans Act passed in 1944. But the provision of long-term farm credit was primarily left to the federal government until the late 1970's when some provincial governments and banks expanded their long-term agricultural lending programs.

The extent of total bank lending in agriculture between 1965 and 1979 has shown some variability (Table 4). Total loans outstanding to farmers from chartered banks increased from $816 million in 1965 to $7,748 million in 1981. Over that period, the proportion of agricultural loans to general loans outstanding, excluding mortgages, provincial and municipal loans and loans to finance and consumer loan companies, has remained relatively constant, ranging from 6.46 per cent in 1981 to a high of 8.67 per cent in 1966.

Annually, the total amount of credit extended by the chartered banks has grown rapidly from $776.7 million in 1965 to an estimated $4,720.3 million in 1980 (Table 5). However, the amount of agricultural credit extended annually by chartered banks as a proportion of total credit has remained at between 50 and 58 per cent and between eight and 12 per cent for credit unions since 1970. This indicates that although the agricultural loan portfolio of the chartered banks and credit unions has increased and may have been adjusted with respect to the term of its agricultural investments, the priority given to agricultural lending over this period has not changed significantly.

Beginning in 1977, the five major banks increased their emphasis on farm lending with the introduction of total credit packages including long-term mortgage loans. Specific chartered bank programs offer mortgages with terms varying from five-year renewable interest mortgages to those where the interst rate floats with the bank's prime rate. Amortization periods can be negotiated for periods of up to 25 years. The loan-to-security ratios depend on the type of legal instrument used for security purposes. Loan maximums are flexible in most cases and limited by the security available and repayment ability.

Statistics provided by Agriculture Canada indicate that chartered banks extended $173.6 million of long-term credit in 1977 and $610.9 million in 1978. However, in 1979 and 1980 the amount extended by the chartered banks decreased to $536.5 million and $457.6 million. This decrease in the amount extended in 1980 probably results from reduced demand due to higher interest rates and low livestock prices. The same trend is expected for 1981 with most long-term loans approved for debt consolidation purposes and limited net new funds extended for capital investment. With the recent shortening of the term on long-term amortized loans by chartered banks to the point where some banks offer only floating interest or a maximum of one- or three-year fixed interest mortgages, bank lending may be limited to only the most financially secure borrowers.

Further activity in long-term agricultural lending will depend on the priority this sector is given by the banking community considering the relative profitability of other sectors of the economy, the level of net farm incomes and the nature of federal and provincial government lending programs.

Government Agricultural Financial Intermediaries

Government intervention in the agricultural credit markets is normally justified on the basis of two arguments: to achieve objectives other than those automatically achieved by a "perfect" market economy or to correct resource and income allocation deficits resulting from market imperfections. For example, the Canadian Farm Loan Board (CFLB) was established in 1929 because lending institutions were not meeting the financing needs of the industry. Many provincial lending programs have been introduced to improve resource and income distribution between agriculture and other sectors of the economy as well as to stimulate the expansion of various agricultural enterprises.

Federal Lending Programs

The federal government is directly involved in agricultural financing through the Farm Credit Corporation (FCC) and to a lesser extent, through the Federal Business Development Bank (FBDB). It is indirectly involved in financing agriculture through the guaranteed loans program under the Farm Improvements Loan Act (FILA) (Annex II). The amount of credit extended by each source varies on a provincial and national basis in response to economic conditions and adjustments or modifications in the credit environment (Table 6).

Farm Credit Corporation

The Farm Credit Corporation (FCC), established in 1959 as the successor to the Canadian Farm Loan Board,

represents the main thrust of the federal government's involvement in agricultural long-term mortgage lending. FCC's objective is to help Canadian farmers establish and develop viable farm enterprises. It normally takes first mortgage security on real estate and on chattels if necessary. As well, subsequent mortgage positions are possible as a result of amendments to the Farm Credit Act in 1975. If an applicant can demonstrate repayment and meets all other requirements, a loan can be made for up to 100 per cent of the value of the security offered. In addition to the provision of credit, financial and farm management counselling is provided.

Loan funds can be used to purchase land, make permanent improvements, refinance existing debt, purchase livestock and machinery and for various other purposes. Increasing emphasis has been given in recent years to assisting young individuals to establish farm enterprises. Since 1975, the Corporation has been able to make loans to potential farmers who required a period of up to five years to become established in full-time farming.

The November 1981 federal budget established the Special Farm Financial Assistance Program to assist farmers in financial difficulty. The program provided $45 million for special loans for debt consolidation until March 31, 1982 and $5 million for interest rebates of five percentage points for up to two years. The June 28, 1982 federal budget reintroduced the Special Farm Financial Assistance Program for a two-year period. The program provides for $100 million in loan funds for each of the two years and $16 million in interest rebates of four percentage points for two years.

FCC also administers the Farm Credit Syndicates Act, an intermediate-term credit program, which provides loans to groups of three or more farmers who are cooperating in the purchase of such joint use investments as storage facilities, grain drying equipment and harvesting equipment.

Table 4
Chartered Bank Loans Outstanding, 1965-1981 ($000,000)

Year	General Loans[1]	Total Agricultural Loans	Farm Improvement Loans	FIL as % Total Ag. Loans	Agricultural Loans as % of General Loans
1965	9,751	816	344	42.16	8.37
1966	10,455	906	399	44.04	8.67
1967	11,847	1,023	433	42.33	8.64
1968	13,252	1,032	314	30.43	7.79
1969	14,886	1,137	321	28.23	7.64
1970	15,726	1,214	303	24.96	7.72
1971	19,327	1,388	332	23.92	7.18
1972	23,435	1,569	373	23.77	6.70
1973	29,396	2,004	452	22.56	6.82
1974	35,002	2,295	457	19.91	6.56
1975	40,437	2,718	478	17.59	6.72
1976	49,151	3,339	456	13.66	6.79
1977	55,332	3,888	416	10.70	7.03
1978	62,423	4,893	468	9.57	7.84
1979	77,904	6,261	541	8.64	8.04
1980	93,291	7,205	549	7.62	7.72
1981	120,000	7,748	496	6.40	6.46

Source: Bank of Canada Review, August 1982, May 1976

[1] General loans include bank personal loans, loans to institutions, business loans and loans to farmers. Does not include mortgages, provincial and municipal loans and loans to finance and consumer loan companies.

Table 5
Estimated Farm Credit Extended by Chartered Banks[1] ($000,000)

Year	Short-Term	Intermediate-Term	Long-Term	Total Extended by Banks	Total All Agricultural Credit Extended	Chartered Bank Credit as a % of Total Credit Extended
1965	574.0	202.7		776.7	1,862.8	42
1966	618.0	212.8		830.8	2,021.7	41
1967	733.0	203.7		936.7	2,270.0	41
1968	895.0	40.2		935.2	2,177.2	43
1969	990.9	162.0		1,152.9	2,168.9	53
1970	1,126.0	118.0		1,244.0	2,182.2	57
1971	1,314.0	192.4		1,506.4	2,587.7	58
1972	1,404.0	242.9		1,646.9	2,929.6	56
1973	1,618.7	352.8		1,971.5	3,546.6	56
1974	1,805.0	359.9		2,164.9	4,197.4	52
1975	2,485.6	461.5		2,947.1	5,250.8	56
1976	2,391.5	662.8		3,054.3	5,642.6	54
1977	2,271.4	740.7	173.6	3,185.7	6,392.7	50
1978	2,498.6	923.6	610.9	4,033.1	7,413.4	54
1979	2,873.6	1,079.0	536.5	4,489.1	8,436.1	53
1980	3,119.4	1,143.3	457.6	4,720.3	9,104.3	52

[1] Includes FILA loans.

Table 6

Farm Credit Approved by FCC, FILA and FBDB by Province

Province and Program	1977-78 #	1977-78 $000,000	1978-79 #	1978-79 $000,000	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000
B.C.										
FCA	150	13.0	98	11.5	154	18.4	175	21.6	155	19.5
FILA	811	5.9	809	7.5	968	13.7	1,144	17.0	938	15.5
FBDB	135	5.5	148	8.9	215	10.7	88	3.9	38	2.5
Alberta										
FCA	1,106	85.1	824	75.1	948	99.8	640	71.7	741	75.4
FILA	5,871	42.4	9,363	84.9	10,065	102.9	6,842	74.7	4,894	57.4
FBDB	63	2.7	66	5.6	61	5.5	43	2.9	21	2.4
Sask.										
FCA	1,927	138.9	1,330	111.6	1,570	149.6	1,346	128.5	1,284	118.6
FILA	6,381	46.3	8,391	77.8	8,388	85.9	6,952	79.3	5,724	68.8
FBDB	13	0.9	15	1.1	12	0.9	8	0.52	3	0.18
Man.										
FCA	753	52.1	647	52.6	567	57.9	470	47.1	491	50.4
FILA	2,717	18.4	3,525	30.0	3,475	33.4	2,482	25.2	2,066	21.4
FBDB	5	0.1	6	0.6	10	0.5	12	1.8	6	0.27
Ont.										
FCA	1,786	162.7	1,321	150.2	1,326	171.5	1,084	138.3	1,176	130.3
FILA	1,590	13.1	1,579	18.6	1,410	18.9	1,154	16.1	822	12.4
FBDB	101	5.5	129	7.9	111	5.6	86	5.8	22	1.6
Que.										
FCA	1,118	91.9	1,022	99.0	926	111.9	742	81.0	863	85.9
FILA	86	0.6	71	1.3	52	0.9	75	2.0	113	3.4
FBDB	23	2.7	25	3.8	44	6.7	15	5.8	10	1.7
N.B.										
FCA	92	5.9	93	8.4	94	9.4	100	9.0	101	8.8
FILA	204	1.3	168	1.6	211	1.7	180	1.5	162	1.7
FBDB	3	0.15	4	0.2	12	0.9	7	0.36	2	0.04
N.S.										
FCA	19	1.6	14	1.5	25	2.3	7	1.1	9	0.6
FILA	183	1.0	155	1.1	178	1.3	124	1.1	73	0.7
FBDB	4	0.07	10	0.3	16	0.5	3	0.05	1	0.07
P.E.I.										
FCA	111	6.7	66	4.0	73	5.7	108	9.0	112	8.9
FILA	493	3.3	374	2.8	416	3.8	352	3.0	284	2.8
FBDB	5	0.2	1	0.1	13	0.6	—	—	3	0.46
Nfld.										
FCA	4	0.3	8	0.9	15	2.0	14	1.7	16	1.2
FILA	1	0.002	5	0.1	11	0.2	13	0.3	9	0.2
FBDB	2	0.06	4	0.1	2	0.08	2	0.08	—	—
Canada										
FCA	7,066	558.2	5,423	514.8	5,698	628.5	4,686	508.9	4,948	499.8
FILA	18,337	132.2	24,440	225.6	25,174	262.7	19,319	220.2	15,085	184.2
FBDB	354	17.9	408	28.6	496	32.0	266	21.2	107	9.3

Sources and Use of Funds

The two primary sources of funding for FCC have been borrowings and capital advances from the Minister of Finance, and repayment and prepayment of loans by farmers (Table 7). Farmers' payments and prepayments as a source of funds to FCC increased from $99.1 million or 27 per cent of funds available for lending in 1977-78 to $160.3 million or 34 per cent of funds available for lending in 1979-80. In 1981-82 payments and prepayments decreased to $110.8 million or 24 per cent of funds available for lending. This decrease is primarily due to high interest rates which have not encouraged farmers to prepay their loans as well as a lower level of loan payments due to financial pressures on some borrowers. As well, some of the increase in 1979-80 can be attributed to repayment of FCC loans by the provincial lending program in Quebec.

As a result of the relatively short supply of funds to the FCC over the past several years, in April 1982 amendments were made to the Farm Credit Act which authorize the FCC to borrow funds from sources other than the Minister of Finance. A capital markets borrowing program is being developed which, depending on financial market conditions, should allow the FCC to obtain up to $200 million from the financial markets during the 1982-83 fiscal year. With the authority to obtain funds from other sources, the FCC will be able to more adequately meet the long-term credit needs of Canadian farmers.

The cost of funds to the FCC under the Farm Credit Act has been based on the yield on five- to ten-year Government of Canada bonds for the six-month period preceding the interest rate adjustment dates of April 1 and October 1. These funds are then loaned to farmers at one per cent above the yield rate. However, with the authority to borrow funds from other sources, a new formula will be developed.

As of March 31, 1982, the FCC had 74,637 loans outstanding for a total of $3.65 billion.

The average size of loan has increased from $78,995 in 1977-78 to $101,007 in 1981-82. However, in constant 1977 dollars, average loan size in 1981-82 was $68,560, a 13 per cent decrease.

The financial characteristics of FCC's clientele have also changed significantly, reflecting the evolving nature of the agricultural economy. In 1977-78, average assets and liabilities were $236,128 and $105,403, respectively. By 1981-82, average assets and liabilities had increased to $391,187 and $199,043, respectively, ($265,525 and $135,103 in constant 1977 dollars), illustrating the increasing investment requirements of FCC's clientele over the last five years. The majority of FCC loan funds in 1981-82 was approved for debt consolidation purposes, the purchase of land and establishing new units (Table 8).

In 1981-82, the FCC approved 4,948 loans for a total of $499.8 million. It is projected that in 1982-83 the FCC's gross loan approvals could reach $750 million.

Farm Improvement Loans Act (FILA)

FILA came into force in March 1945 for an initial period of three years and subsequently has been amended periodically. The purpose of the Act was to reduce lender risk by providing a government guarantee against losses thereby increasing the availability of short- and intermediate-term credit to farmers.

Chartered banks and other designated lending agencies, including Alberta Treasury Branches and credit unions, provide FILs to farmers (Table 9). Loans can be made for purchasing additional farm land, fencing and drainage, constructing new buildings, purchasing machinery and livestock and repairing barns and equipment.

In the year ending December 31, 1981, 15,085 loans were made totalling $184.2 million compared to 19,319 loans for $220.2 million in 1980. Of the amount extended in 1981, 73.6 per cent was for agricultural implements, 9.0 per cent for construction and repair of buildings, 8.3 per cent for the purchase of livestock and the balance for miscellaneous purposes.

The percentage of FILs outstanding as a proportion of the total bank agricultural loan portfolio declined from a high of 44 per cent in 1966 to 6.4 per cent in 1981. The decrease is due primarily to the banks' willingness to lend under their own agricultural programs as well as the concern by lending institutions over the interest rate ceilings imposed by the government. Between 1968 and March 1, 1978, the allowable interest rate was determined by a formula based on government bond yields plus one per cent. Interest rates on FILs from chartered banks now float at one per cent above prime. For other designated lending institutions, the rate is determined by the average of the chartered banks' prime rates on the third Wednesday of the preceding month plus one per cent.

Responsibility for the administration of FILA was transferred from the Minister of Finance to the Minister of Agriculture in 1979. At present, the Farm Development Division of Agriculture Canada administers the program.

The Act is reviewed by Parliament every three years and was last amended in July 1980, at which time the maximum amount outstanding to any borrower was raised from $75,000 to $100,000. Consultations with lending institutions, provincial governments and others are in process in preparation for the required review of the Act by Parliament in 1983.

Federal Business Development Bank (FBDB)

The Federal Business Development Bank, a federal Crown corporation, is a venture capital financial institution providing credit to small businesses which cannot receive adequate financing from other sources. Established in 1944, FBDB originally obtained all its funds from the Bank of Canada through the sale of shares, bonds and debentures to the Bank. During 1979-80, it ceased to obtain its funds

from the government and now obtains all its requirements by borrowing on the capital markets.

In addition to providing loans, FBDB assists small businesses by providing equity financing. As well, FBDB provides management services in the form of counselling, management skills training for owners of businesses and information. FBDB is not a major financial intermediary in agricultural credit. In 1981-82, FBDB provided 107 loans for agricultural purposes, totalling $9.3 million (Table 10).

Provincial Lending Programs

Provincial lending schemes were the first sustained government loan programs in agriculture. The Ontario tile drainage loan program, introduced in the late 1870's, was one of the first of these and is still in existence. Generally, provincial lending programs originated to fill gaps in credit markets or to provide a specific type of relief or assistance to farmers.

Provincial programs vary in scope and magnitude from province to province and are very detailed (Annex II). In addition to direct and indirect loan programs of short-, intermediate- and long-term nature, some provinces have interest subsidies, grants or other concessions. The terms and conditions vary considerably. Interest rates may be tied to the chartered banks' prime rate, reflect the cost of funds to the provincial government or be at a level established by the government.

The amount of long-term credit as well as the extent of subsidies or grants related to long-term farm credit also varies from province to province. As a result of the financial difficulties experienced by some farmers in 1981 and 1982, several provinces have recently introduced special short-term credit programs or interest subsidies to assist farmers through this period. Although every province has some type of farm credit program, the differences in assisting the financing of agriculture are significant.

Table 7

Farm Credit Corporation Sources of Funds, 1977-78 to 1981-82 ($000,000)

Source	1977-78	1978-79	1979-80	1980-81	1981-82
Gross borrowings from Canada and capital contributed	392.6	375.0	430.2	409.0	502.7
Plus: repayments and prepayments[1]	99.1	120.8	160.3	126.9	110.8
	491.7	495.8	590.5	535.9	613.5
Less: principal refinanced and repayment of borrowings from Canada	95.2	108.6	123.3	138.7	154.5
Funds available for loan approvals	396.5	387.2	467.2	397.2	459.0

[1] Includes increase in funds held for future instalments.

Table 8

Purposes for Which Loans were Approved During Last Five Years

Purpose	1977-78	1978-79	1979-80	1980-81	1981-82
			— Per cent —		
Additional land	31.8	30.4	29.8	27.9	22.1
New units	29.2	29.1	29.8	24.4	21.9
Permanent improvements	15.8	20.2	19.3	16.5	13.7
Land secured debts	9.4	8.1	9.2	12.3	16.4
Other debts	7.3	6.1	6.8	12.0	18.5
Equipment	2.1	2.2	1.7	2.3	2.5
Livestock	1.5	1.6	1.2	2.2	2.1
Miscellaneous	2.9	2.3	2.2	2.4	2.8

(New units include funds borrowed for all purposes.)

Table 9

Farm Improvement Loans by Lenders, 1980 and 1981

Institution	1980	1981
Canadian Imperial Bank of Commerce	$101,720,116	$ 79,613,275
Toronto-Dominion Bank	45,469,429	37,361,065
Bank of Nova Scotia	32,154,852	29,133,717
Royal Bank of Canada	16,925,723	16,305,084
Bank of Montreal	16,654,553	16,152,814
Credit Unions and caisses populaires	2,964,125	2,909,242
Alberta Treasury Branches	2,177,220	1,311,460
National Bank of Canada	2,040,953	1,200,282
Bank of British Columbia	89,200	172,300
Other Lenders	20,000	68,565
	$220,216,171	$184,227,804

With the recent expansion of the AADC programs, the Alberta government is taking a very active role in the financing of primary producers.

British Columbia

In British Columbia, the three major credit programs include preferential loans for land development, a guaranteed loan scheme and an interest reimbursement plan reducing the effective rate of the farmer's average cost of capital to one per cent below the average chartered banks' prime rate. Interest reimbursements are limited to $10,000 per farmer on interest paid to approved lenders identified as chartered banks, credit unions, FCC and FBDB (Table 11).

The guarantees and interest rate subsidy appear to reduce the degree of differentiation between financial intermediaries in British Columbia. Service and availability of funds then become factors which contribute to the success of one financial intermediary over another.

British Columbia's agricultural credit programs are funded from the general revenue fund of the provincial government.

Alberta

The *Alberta Agricultural Development Corporation* (AADC), a provincial Crown corporation, replaced the Farm Purchase Board in 1973. Since that time, it has grown rapidly. It is estimated that AADC will lend about $281 million in direct loans in 1982-83 including the refinancing of old loans. This is substantially larger than the $100 million that FCC expects to extend in Alberta during the same period.

The AADC provides a variety of loans including direct loan programs aimed at family farms and beginning farmers and guaranteed loan programs to assist in farm and agribusiness development. One unique feature of the direct farm loan program is its five-year fixed interest rate which is at 12 per cent with a 3 percentage point reduction of interest for the first five years for those producers who cannot obtain financing elsewhere and whose net worth is less than $225,000. After each five-year renewal period, a new rate is established which cannot be more than one per cent higher or lower than

Table 10

Federal Business Development Bank Loan Approvals, 1977-78 to 1981-82

Year	Total Approvals number	Total Approvals amount ($000's)	Agricultural approvals number	Agricultural approvals amount ($000's)
1977-78	9,908	$479,324	354	$18,001
1978-79	12,271	668,593	408	28,638
1979-80	16,571	866,432	496	32,041
1980-81	7,968	484,039	264	20,862
1981-82	4,630	475,973	107	9,323

Table 11

Agricultural Credit Assistance Extended by B.C. Ministry of Agriculture, 1979 to 1981

Type of Assistance	1979 #	1979 $000,000	1980 #	1980 $000,000	1981 #	1981 $000,000	Forecast 1982 #	Forecast 1982 $000,000	Amount Outstanding Dec. 31, 1981 $000,000
Agricultural Land Development Act	724	4.7	643	4.3	613	3.3	520	2.8	18.6
Guaranteed Loan Programs	36	4.7	39	4.7	36	4.8	38	5.0	14.2
Partial Interest Reimbursement Program[1]	6,666	8.2	7,330	23.3	6,450	12.5	5,500	8.5	

[1] Paid on loans outstanding in the previous year.

Table 12

Lending Activities, Alberta Agricultural Development Corporation, 1979-80 to 1981-82

Type of Assistance	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
Direct Loans	654	61.9	1,324	183.2	1,587	236.8	281.0	531.0
Specific Guaranteed Loans	112	13.7	53	8.5	55	15.7	26.0	38.0
Alberta Farm Development Loans	4,509	55.7	5,407	69.6	4,546	63.7	67.0	128.0

that during the preceding term. An attractive feature of the beginning farmer loan program is the interest rebate of six per cent of the original principal paid annually for the initial five-year period, after which the rate is established at the same level as that charged on loans under the direct farm loan program.

With the recent expansion of the AADC programs, the Alberta government is taking a very active role in the financing of primary producers. In 1981-82, $236.8 million was approved in direct loans by AADC compared to $75.4 million approved by FCC in Alberta.

The AADC programs are financed through debentures purchased by the Alberta Heritage Trust Fund.

Recently, the Alberta government also announced a small business and farm interest shielding program which reduces the interest on loans up to $150,000 from financial institutions to 14.5 per cent from a maximum of 20.5 per cent for two years. The farm portion of the program is expected to cost about $100 million over the two years. A mortgage interest reduction program has also been announced which will reduce mortgage interest rates to 12.5 per cent for two years for home owners including farmers. Both of these programs are financed by income from the Alberta Heritage Savings Trust Fund.

Saskatchewan

The province of Saskatchewan has two financial corporations offering different services to the agricultural community.

The *FarmStart Corporation*, established under the Agricultural Incentives Act of 1973, assists low equity and low income farmers to become established by intensifying production through diversification into livestock. Such diversification also is intended to encourage employment in the province through the promotion of the livestock industry and related processing. In addition to

Table 13

Lending Activities, Saskatchewan FarmStart Corporation, 1979-80 to 1981-82

Type of Assistance	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
FarmStart Loans	658	25.1	1,059	44.3	880	37.0	39.0	129.7
Grants on Loans	329	2.0	361	2.2	251	1.5	2.6	
Interest Subsidy on Loans	3,470	1.8	4,050	2.0	4,484	2.5	3.5	

Table 14

Land Acquisition, Sales and Leasing Activities, Saskatchewan Land Bank Commission, 1979 to 1981

Year	Purchase Offers Accepted	Total Acres Acquired	Net Value of Acquisition	Total Acres Sold	Agreements Entered Into	Total Acres Leased
1979	203	145,325	$35,176,280	12,461	390	144,973
1980	44	47,416	13,950,661	10,852	369	138,974
1981	183	78,931	30,279,688	7,042	177	59,067
1982	Program currently under review					

Table 15

Lending Activities, Manitoba Agricultural Credit Corporation, 1979-80 to 1981-82

Type of Assistance	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
Direct Loans	405	24.4	430	25.9	648	36.9	N/A	151.3
Corporate Loans	4	0.4	1	0.1	3	0.6	N/A	0.8
Stocker Loans	40	1.0	25	0.6	13	0.3	N/A	6.8
Guaranteed Loans	10	0.5	81	3.4	103	3.8	N/A	5.8

Ontario agriculture relies almost entirely on credit provided by the federal government and private lending institutions and is the only province that does not offer a long-term credit program.

preferential interest rates on FarmStart loans, repayment can be delayed for up to three years if required. To those who qualify, grants of up to $8,000 are also available (Table 13).

FarmStart receives its funds for the payment of grants, interest subsidies and administration from provincial government appropriations. Lending programs are financed by a line of credit with the chartered banks and through the issue of long-term debentures to the provincial government.

The *Saskatchewan Land Bank Commission* is a unique intermediary as it enters directly into the purchase, sale and leasing of land rather than providing funds to effect the process. Established in 1972 at a time of depressed farm incomes and a slow land market, the Commission's objectives were to facilitate the transfer of land within the family and to help young farmers become established.

The Commission purchases land from retiring farmers or provides a lease-back arrangement to other farmers who wish to trade ownership for lower carrying costs. The acquired property is leased to farmers for five years. The lessee is eligible to renew the lease at the end of the five years or purchase the land at market value. However, there has been very little activity under the program in 1982 as the program is currently under review.

The new provincial government is currently studying the establishment of a long-term farm credit program with reduced interest rates in conjunction with the possible termination of the land lease program.

Manitoba

The *Manitoba Agricultural Credit Corportion* (MACC) is the principal provincial financial intermediary providing assistance to farmers. It was established in 1959 to assist farmers to acquire farm land, make farm improvements and purchase cattle. It provides both direct and guaranteed loans. However, the guaranteed loan program has not been very active. Interest rates on direct loans are based on the cost of funds to the provincial government.

However, farmers under 40 years of age are eligible for a four percentage point rebate on the first $50,000 loaned for five years. Interest rates on guaranteed loans are at one per cent above the chartered banks' prime rate. In 1981-82, $36.9 million was extended in direct loans by MACC (Table 15).

In 1982, the Manitoba government introduced a two-year interest rebate program for farmers with less than $70,000 gross income and who are in financial difficulty. Up to $6,000 per year is provided on the basis of a 50 per cent grant and a 50 per cent deferred interest loan on interest rates of up to 20 per cent for debts from financial institutions.

MACC also makes credit available to purchase stocker calves. The objective of this program is to retain stocker calves in Manitoba.

MACC direct loans are funded by the provincial treasury.

Ontario

Ontario agriculture relies almost entirely on credit provided by the federal government and private lending institutions and is the only province that does not offer a long-term credit program. The credit programs which it has offered over the years have normally been government guaranteed loans aimed at assisting a particular sector.

The tile drainage program provides up to 60 per cent of the cost of drainage work to a maximum of $20,000 per year with the outstanding amount limited to $60,000 (Table 16). Repayment is over a period of up to 10 years at 10 per cent. Municipalities make the loans to farmers and issue debentures to the Treasurer of Ontario.

The land lease program in Ontario offers five-year leases of government-owned land to young capable farmers. Activity under this program is limited due to the relatively small amount of land available for lease. A young farmer credit program is available to assist farmers on leased land as well as others. These guaranteed loans are available at prime plus one per cent over 10 years through banks, credit unions and other designated institutions.

In 1982, the Ontario government introduced a one-year farm adjustment program to assist farmers in financial difficulty who have a good chance of recovery. The program provides deferral of bank interest on operating loans, a provincial guarantee on operating loans and an interest reduction of up to five percentage points to a minimum of 12 per cent on all floating rate bank loans. Most of the assistance under the program has been provided for interest reduction.

Quebec

The province of Quebec has one of the most extensive provincial lending programs in Canada administered by the *Quebec Farm Credit Bureau*. The Bureau was established in 1936 for the purpose of making low interest loans to farmers and consolidating debts.

The Bureau administers a direct long-term lending program, a program to promote long-term farm credit by private institutions, a farm improvement loan program, programs to promote various types of production, programs of interest subsidization, a production credit program, as well as other small programs (Table 17).

Quebec's unique and innovative guaranteed loan program to promote long-term farm credit by private institutions is commonly referred to as the "tandem" program. Under the program, lending staff at the Farm Credit Bureau assess loan applications. If a loan is approved, the applicant takes his approval certificate and obtains his funds from private financial institutions. However, if a farmer requires funds in excess of those allowed under the "tandem" program, they can be borrowed through the Bureau's direct long-term credit program. In 1981-82, preliminary data indicate 3,414 loans were

approved for a total of $347.3 million. However, if adjustments were made for loans refinanced, the net increase in credit extended would be less.

Interest rates on mortgage loans are established monthly at the prime interest rate of the chartered banks. However, the interest rate is subsidized on the first $150,000 for an individual and $200,000 for a group so that on these amounts farmers pay four per cent plus one-half of the difference between four per cent and the prime rate. As well, in September 1982, the Quebec government introduced an interest subsidy program on long-term loans for farmers 40 years of age and under who are establishing a farm. The Quebec government pays the interest costs on the first $50,000 for five years on loans under the tandem program, the Quebec Farm Credit Act and the federal Farm Credit Act.

Prior to 1982, the interest rate under the tandem program was 0.5 per cent above the prime rate. With the change to establishing the rate at prime, some of the chartered banks have limited their activity in the program, although the caisses populaires are still actively lending under the tandem program.

The Quebec Credit Bureau offers a total credit program covering the financial needs of most farmers. The purpose of its farm loan programs and their terms and conditions are similar to those of federal programs.

Table 16

Agricultural Credit Assistance Extended by Ontario Ministry of Agriculture and Food, 1979-80 to 1981-82

Type of Assistance	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
Ont. Young Farmer Credit Program	8	0.2	18	0.6	49	2.8	2.8	2.6
Ont. Tile Drainage Act	3,652	29.9	3,113	26.2	3,402	28.5	35.0	125.0
Farm Adjustment Program[1]								
– Deferred Loans with Interest Guaranteed	—	—	—	—	1	0.06	0.2	006
– Interest Reduction	—	—	—	—	89	19.9	800.0[3]	—
– Guaranteed Operating Credit	—	—	—	—	24	1.7	60.0	—
Other Guaranteed Bank Loans[2]								2.9

[1] Program began January 1, 1982.
[2] IMPIP, Beef Heifer, Tornado Damage Assistance, Grape Conversion, Rebates of Interest or Principal involved.
[3] Amount of loans eligible for 5% interest rebate.

Table 17

Loans Extended by the Quebec Farm Credit Bureau, 1979-80 to 1981-82

Act	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
Farm Credit Act	442	8.6	203	3.7	0	0	N/A	1852
Act to Promote Long-Term Farm Credit from Private Lending Institutions	3,206	335.7	3,419	337.1	3,414	347.3	N/A	9117
Farm Improvement Loans Act	9,153	89.9	8,617	93.0	6,695	74.9	N/A	2132
Act to Promote Farm Production Credit	673	21.6	1,133	38.4	1,202	42.4	N/A	484
Act to Promote Special Credit to Producers During Critical Periods	0	0	892	22.7	210	2.3	N/A	18.2

New Brunswick

The New Brunswick lending programs are administered by the *New Brunswick Farm Adjustment Board.*

Direct loans are made available and considered complementary to FCC loans (Table 18). Mortgages are renewable every five years with the interest rate established quarterly at the provincial lending rate. However, an interest subsidy was recently introduced which reduces the interest rate on both the Board's loans and FCC loans to a base rate of seven per cent plus half the difference between the base rate and the provincial lending rate. The maximum total annual interest subsidy payable is $10,000 for loans from both the FCC and provincial program.

Land leases are also available at $1.00 for the first and second year after which a rate of five per cent of the Farm Adjustment Board's cost is charged.

Loans and leases are also available to part-time farmers and to agricultural linkage operations and are renewed every five years. These loans are also available at the subsidized interest rate.

Programs are funded through the general revenues of the province.

Nova Scotia

The *Nova Scotia Farm Loan Board* administers a variety of lending programs for farmers under the Agriculture and Rural Credit Act.

Loans are made to commercial farmers at 10 per cent on the first $150,000 and 13 per cent on the balance up to $300,000. Loans are also available to part-time farmers who qualify at an interest rate of 13 per cent.

Under a farm land purchase and leasing program, land is leased to farmers for a five-year term with the option to purchase. The lease fee is 10 per cent of the purchase price plus miscellaneous charges.

Table 18

Lending Activities by Provincial Agency, Atlantic Provinces, 1979-80 to 1981-82

Source	1979-80 #	1979-80 $000,000	1980-81 #	1980-81 $000,000	1981-82 #	1981-82 $000,000	Forecast 1982-83 $000,000	Amount Outstanding March 31, 1982 $000,000
N.B. Farm Adjustment Board	235	11.0	212	11.9	245	11.0	11.1	53.9
N.S. Farm Loan Board	349	16.4	402	22.2		21.6	14.0	99.0
P.E.I. Lending Authority[1]	262	7.8	264	11.1	194	9.2	10.0	18.3
Nfld. Farm Development Loan Board		0.5	81	0.8	125	0.8	0.7	3.5

[1] Includes short-, intermediate- and long-term loans.

An interest rate subsidy program is provided by the Nova Scotia Department of Agriculture and Marketing on loans made by FCC, VLA and the Nova Scotia Farm Loan Board. A subsidy of 2.5 per cent is given on principal owing to a maximum of $1,250. For farmers under 35 years of age who are establishing a farm, the interest is paid on the first $15,000 for the first two years on FCC and Nova Scotia Farm Loan Board loans.

Of the Maritime lending programs, the Nova Scotia Farm Loan Board has been the most active. FCC lending activity has been negligible in Nova Scotia.

Prince Edward Island

The *Prince Edward Island Lending Authority* offers direct loans to farmers for operating, intermediate- and long-term credit. The majority of their funds are provided for working capital loans. Their programs are complementary to other programs.

Long-term loans are provided at the cost of borrowing to the province.

Newfoundland

The *Newfoundland Farm Development Loan Board* provides intermediate-term loans to a maximum of $20,000 for the purchase of farm buildings and $10,000 for the purchase of livestock, equipment and land development. Loans are made at 12 per cent for up to 15 years. There has been limited activity under the program.

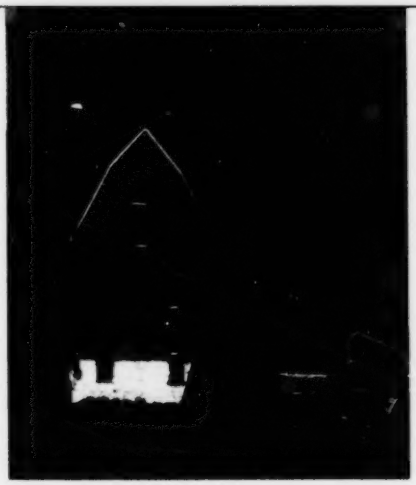
An Overview of Financial Intermediaries in Agriculture

Evolution and change have been a trademark of the Canadian financial system. Nowhere has change been more pronounced than in the specialized area of agricultural finance. After the turn of the century, provincial lending agencies filled the gap, but by the late 1920's, many of these programs had fallen into disarray due to a lack of support and funding. Private institutions, particularly banks and life insurance and trust companies, actively entered the market at this point. By 1929, with the formation of the Canadian Farm Loan Board, the federal government's presence was established.

Severe economic depression in the agricultural sector in the 1930's which was brought about through depressed market conditions and natural disasters resulted in a further rationalization of the credit markets. Private institutions virtually withdrew from the long-term agricultural credit field after suffering substantial losses as a result of provincial debt moratorium legislation. During the 1950's and 1960's, the federal government was the main supplier of long-term credit. Provincial agencies, while more subject to changing political and economic conditions, had a more variable impact on the market than the federal government.

The 1970's saw some of the greatest changes in agricultural finance. These developments were rooted in dramatic changes in primary agriculture, particularly rapidly inflating investment costs, commodity prices and input costs. These changes, coupled with a shift in the attitude of lenders and users of credit, have resulted in a rapidly growing credit market, particularly for long-term investment capital.

The last half of the 1970's saw several important structural changes in the credit market. First, the chartered banks expressed a renewed interest in long-term agricultural lending. Mortgage programs were developed by all the major banks. By 1978, the chartered banks paralleled FCC as participants in the long-term



market. As well, other financial institutions, such as caisses populaires and credit unions, increased their long-term lending activities. As a result, the share of the long-term credit market shifted among various private and government institutions. However, since 1980 escalating and volatile interest rates combined with depressed prices for certain agricultural commodities reduced the rate of expansion of the long-term lending activities of commercial institutions.

Government financial intermediaries were introduced to fill a void in the credit market which was not being adequately served by private industry, or to redistribute income to the agricultural sector. However, the aggressive lending activities of the Quebec Farm Credit Bureau over the past four years and of the Alberta Agricultural Development Corporation since 1980 mark a deviance from the norm. In 1981-82, total provincial government direct and guaranteed loans extended amounted to $783.1 million in Quebec and Alberta, compared to $162.3 million in direct loans and guaranteed loans extended by all other provinces combined. In response to the difficulties created in the farm sector by high interest rates, since 1980 federal and provincial governments have expanded or initiated temporary programs of interest rebates.

Total long-term government credit extended and outstanding from provincial agencies and FCC has been estimated for 1981-82 by census farm (Table 19). Although only one year (1981-82) is used for comparison, significant differences in lending activity as well as amounts outstanding are evident between provinces. The credit extended per farm was greatest in Newfoundland at $26,786 followed by Quebec at $12,686, reflecting the recent activities of the Farm Credit Bureau to encourage lending. Credit extended per census farm was lowest in those provinces where there were no provincial long-term farm credit programs. Although statistics from private lending institutions are not available on a provincial basis to illustrate the activities of banks where there are no provincial programs, the statistics illustrate considerable disparity of access to government funding which is often provided on favourable terms and conditions.

Significant changes in the extension of long-term credit occurred in the last five years. While FCC dollar participation has remained relatively constant, the amounts which provincial government agencies, banks, credit unions and caisses populaires have extended have increased rapidly (Table 20). However, in 1981 and 1982 changing economic conditions have resulted in increased lending and credit related activities of federal and provincial governments. The total size of the long-term credit market is estimated to be over $1.6 billion in 1980, a four-fold increase since 1970.

The market shares of the major participants in the long-term credit market changed considerably between 1970 and 1980 (Figure 6). Federal participation through the Farm Credit Corporation reached a high of about 70 per cent of the long-term market in 1973 and a low of 25 per cent in 1980. The direct participation of provincial credit agencies also decreased over the period from a high of 23 per cent in 1974 to about 14 per cent of the market in 1980.

Banks have made the most significant gains from essentially no lending prior to 1977 to about 28 per cent of the market in 1979 and 23 per cent in 1980. Credit unions and caisses populaires have also captured a significant part of this market at about 21 per cent, with the remaining amount provided by private individuals and other institutions.

The anticipated developments in the financing of Canadian agriculture are difficult to forecast. High interest rates and the difficult economic conditions of the early 1980's have altered the trends established in the 1970's. Under present conditions, it is obvious that activities of provincial and federal governments' farm lending and credit related activities have increased. Interest rebates provided by both levels of government appear to be a mechanism favoured by governments to overcome temporary financial difficulties and to encourage investment in the farm sector. However, in order to meet the future long-term credit requirements of the Canadian farm sector, continual review of changes in the structure of Canadian agriculture is required. It is increasingly evident that objective rationalization of the roles of provincial governments, the federal government and private institutions in financing agriculture must occur.

The credit institutions which will prevail in the 1980's must be willing to accept the unique characteristics of the agricultural industry. The variability of farm incomes is still a reality in spite of stabilization and income assurance programs and the host of marketing boards available. This likely explains why most developed countries have a specialized government system of long-term farm credit. The effect of international trade policies, grain embargoes and climatic conditins in other countries and in Canada continues to have an impact on the cash flow of Canadian farmers. These characteristics impose constraints on the financial institutions which provide farm credit. Sufficient flexibility in repayment terms to account for the seasonal and cyclical patterns of farm incomes must be incorporated into the lending policies of these institutions. In general, financial instruments offered to farmers should reflect the characteristics of the industry. The instruments and financial policies will be unique to the different agricultural enterprises financed.

In the past and again more recently, government participation has been required to ensure a stable supply of credit under terms and conditions which are compatible with the needs of the farm sector. The extent of this participation in the future will depend on the long-term attitude of private institutions toward agriculture and the innovation of both government and private institutions in meeting the financial needs of agriculture.

Figure 6
Structure of the Canadian Long-Term Credit Market

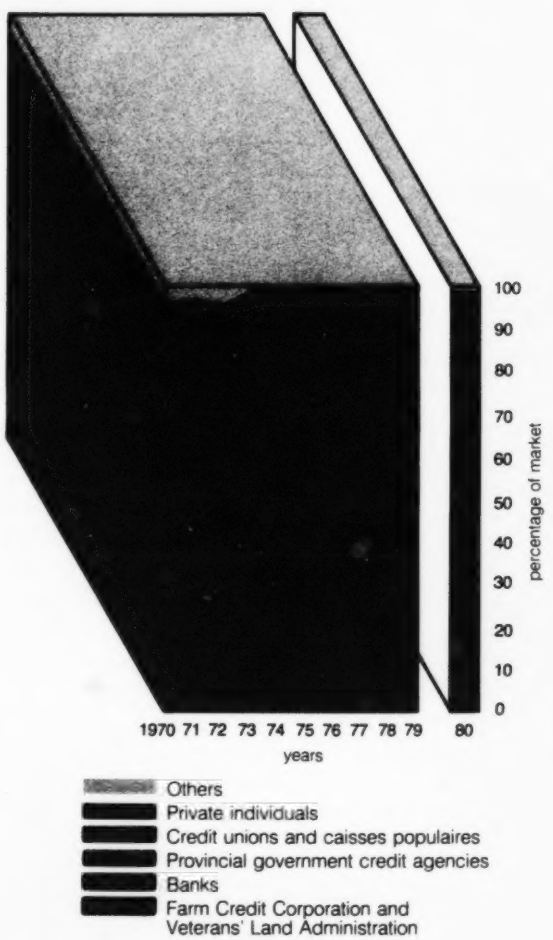


Table 19

Estimated Farm Credit Extended and Outstanding per Commercial Census Farm, 1981-82

Province	Provincial Credit[1] Extended $000,000	Provincial Credit[1] Outstanding $000,000	Farm Credit Corporation Extended $000,000	Farm Credit Corporation Outstanding $000,000	Total Government Credit Extended $000,000	Total Government Credit Outstanding $000,000	Commercial[2] Census Farmers	Credit Extended per Census Farm	Credit Outstanding per Census Farm
British Columbia	3.3	18.6	18.7	125.3	22.0	143.9	10,537	$ 2,088	$13,657
Alberta	388.5	659.0	73.4	640.3	461.9	1,299.3	46,639	9,904	27,859
Saskatchewan	37.0	129.7	107.6	953.3	144.6	1,083.0	60,892	2,375	17,786
Manitoba	37.5	152.1	46.2	341.6	83.7	493.7	24,476	3,420	20,171
Ontario	—	—	128.0	1,013.6	128.0	1,013.6	60,142	2,128	16,853
Quebec	347.3	1,096.9	78.2	450.4	425.5	1,547.3	33,541	12,686	46,132
New Brunswick	11.0	53.9	8.5	42.5	19.5	96.4	2,166	9,003	44,506
Nova Scotia	21.6	99.0	0.4	7.2	22.0	106.2	2,480	8,871	42,823
Prince Edward Island	9.2	18.3	8.9	37.3	18.1	55.6	2,223	8,142	25,011
Newfoundland	0.7	3.5	1.1	6.8	7.5	10.3	280	26,786	36,786

[1] Includes only long-term credit programs (more than 10 years).

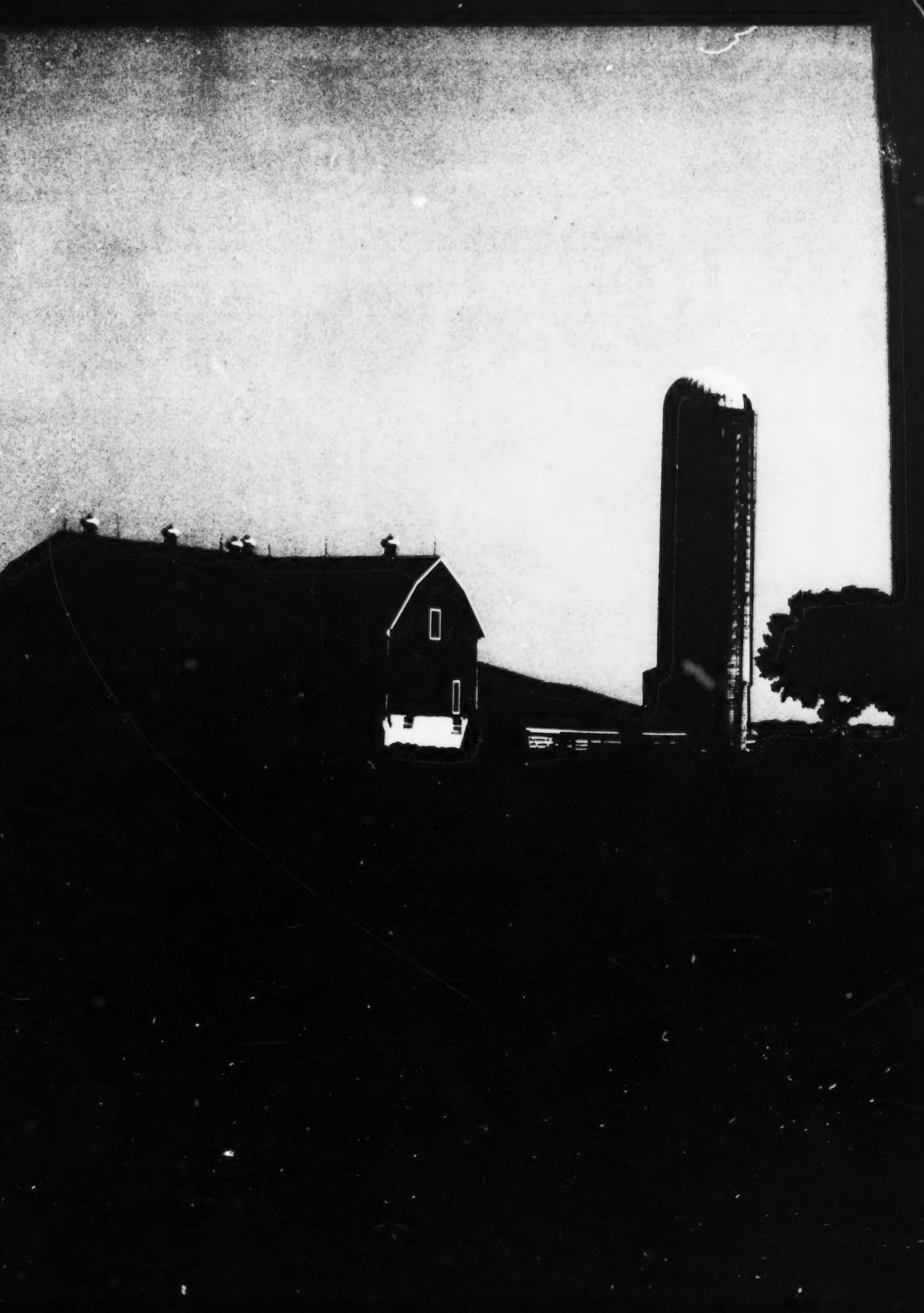
[2] Total number of 1981 Census farmers with sales of agricultural products of $5,000 and over.

Table 20

Long-Term Credit Extended by Financial Institutions[1], 1970 to 1980 ($000,000)

Source	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Farm Credit Corporation	116.5	109.7	156.0	333.2	430.9	472.0	443.1	509.4	490.6	610.1	498.7
Veterans' Land Act	10.5	20.6	11.4	12.4	11.7	6.7	7.7	4.9	1.2	—	—
Provincial Government Agencies	42.4	47.2	36.9	91.2	163.7	128.3	112.2	145.5	105.4	150.1	274.8
Private Individuals	23.4	21.6	17.5	38.2	103.4	149.0	197.7	231.7	244.6	245.3	296.2
Banks[2]								173.6	610.9	536.5	457.6
Credit Unions[2]							84.9	100.4	163.1	376.2	424.4
Other	7.4	6.5	10.6	6.0	7.5	7.4	6.6	9.1	11.0	24.0	12.2
Total	200.2	205.6	232.4	481.0	717.2	763.4	852.2	1,174.6	1,626.8	1,942.2	1,990.8

[1] More than 10 years.
[2] Includes provincially guaranteed loans.



Annex

Table 1

Estimated Farm Credit Extended, Canada, 1977-1980

Source and term of credit	Estimated farm credit extended				Estimated average interest rate		Per cent of credit extended by source		Per cent distribution by term
	1977	1978	1979	1980	1979	1980	1979	1980	1980
	— $000,000 —				— per cent —				
Long-term (10 Years and More)									
Farm Credit Corporation	509.4	490.6	610.1	498.7	10.3	11.9	7.2	5.5	25.0
Veterans' Land Act	4.9	1.2	—	—	—	—	—	—	—
Provincial government agencies	145.5	105.4	150.1	274.8	8.4	11.1	1.8	3.0	13.8
Private individuals	231.7	244.6	245.3	296.2	10.0	11.5	2.9	3.2	14.9
Insurance, trust and loan companies	5.2	7.0	20.0	6.6	11.6	12.0	0.2	0.1	0.3
Credit unions	100.4	163.1	376.2	424.4	10.6	15.3	4.5	4.7	21.3
Banks	173.6	610.9	536.5	457.6	12.5	15.3	6.4	5.0	23.0
Alberta Electrical Co-operatives	3.9	4.0	4.0	5.6	3.5	3.5	—	0.1	0.3
Alberta Treasury Branches	—	—	—	26.9	—	15.4	—	0.3	1.4
Total, long-term	1,174.6	1,626.8	1,942.2	1,990.8	10.8	13.2	23.0	21.9	100.0
Intermediate-term (18 Months to 10 Years)									
Banks (FILA)	122.7	212.9	238.5	215.1	13.7	15.3	2.8	2.4	8.7
Banks (other than FILA)	618.0	710.7	840.5	928.2	14.2	15.8	10.0	10.2	37.7
Private individuals	88.9	92.2	88.4	98.7	10.0	12.0	1.0	1.1	4.0
Supply companies	524.0	571.8	659.9	618.0	17.2	18.0	7.8	6.8	25.1
FCC (Farm Syndicate Loans)	2.0	3.3	4.3	5.2	10.7	12.9	0.1	0.1	0.2
Insurance, trust and loan companies	27.8	33.0	60.0	24.6	12.5	12.0	0.7	0.3	1.0
Federal Business Development Bank	23.7	28.6	32.0	20.9	14.7	18.0	0.4	0.2	0.9
Provincial government agencies	8.1	6.9	2.1	2.0	11.1	13.0	—	—	0.1
Credit unions including FILA	270.6	269.0	316.2	414.0	12.4	15.8	3.8	4.5	16.8
Municipalities (Ontario Tile Drainage)	18.8	17.9	30.0	26.2	6.0	8.0	0.4	0.3	1.1
Finance companies (cars and trucks)	19.0	22.0	27.0	28.0	14.5	18.0	0.3	0.3	1.2
Alberta Treasury Branches	36.9	44.5	45.0	78.8	14.4	15.2	0.5	0.8	3.2
Total, intermediate-term	1,760.5	2,012.8	2,343.9	2,459.7	14.5	16.0	27.8	27.0	100.0
Short-term (Up to 18 Months)									
Banks (other than FILA)	2,271.4	2,498.6	2,873.6	3,119.4	14.5	15.3	34.1	34.3	67.0
Supply companies	390.0	409.0	300.0	451.5	18.0	18.0	3.6	4.9	9.7
Credit unions	209.3	264.6	237.6	228.1	14.3	15.3	2.8	2.5	4.9
Finance companies (household and personal)	11.0	12.0	13.0	14.0	22.5	24.0	0.1	0.2	0.3
Dealers, stores, etc.	14.0	15.0	17.0	18.0	13.5	18.0	0.2	0.2	0.4
Private individuals	183.0	195.3	175.0	185.0	10.0	12.0	2.1	2.0	4.0
Alberta Treasury Branches	110.5	131.1	94.5	173.5	13.9	14.4	1.1	1.9	3.7
Provincial agencies	5.5	7.7	4.7	4.7	13.6	14.2	0.1	0.1	0.1
Cooperative programs	202.9	240.5	434.6	459.6	21.8	21.0	5.1	5.0	9.9
Total, short-term	3,397.6	3,773.8	4,150.0	4,653.8	15 3	16.0	49.2	51.1	100.0
Total, all credit	6,332.7	7,413.4	8,436.1	9,104.3	14.0	15.4	100.0	100.0	

Source: Agriculture Canada

Table 2

Estimated Farm Credit Outstanding, Canada 1977-1980, Interest Rates and Distribution of Debt by Source

Source and term of credit	Estimated farm credit outstanding				Estimated average interest rate		Percentage of credit outstanding by source	
	1977	1978	1979	1980	1979	1980	1979	1980
		— $000,000 —			— per cent —			
Long-term (10 Years and More)								
Farm Credit Corporation	2,582.8	2,856.5	3,179.4	3,467.3	8.5	9.0	21.7	20.9
Veterans' Land Act	85.9	75.3	65.9	63.4	6.5	6.5	0.5	0.4
Provincial government agencies	692.6	686.1	849.4	1,032.3	6.6	7.9	5.8	6.2
Private individuals	635.9	770.6	951.8	1,057.6	9.2	9.9	6.5	6.4
Insurance, trust and loan companies	20.8	28.0	45.3	48.9	11.6	12.7	0.3	0.3
Credit unions	225.8	350.1	617.4	658.5	10.9	12.1	4.2	4.0
Banks	173.6	773.5	1,258.4	1,464.3	12.4	14.3	8.6	8.8
Alberta Electrical Co-operatives	18.1	19.6	21.3	23.8	3.5	3.5	0.1	0.2
Alberta Treasury Branches	—	—	53.2	72.7	14.7	14.3	0.4	0.4
Total, long-term	4,435.5	5,559.7	7,042.1	7,888.8	9.3	10.3	48.1	47.6
Intermediate-term (18 Months to 10 Years)								
Banks (FILA)	403.1	443.3	460.0	559.0	11.8	15.2	3.1	3.4
Banks (other than FILA)	1,388.8	1,548.7	2,002.0	2,329.6	13.5	15.8	13.7	14.0
Private individuals	220.5	232.0	240.1	266.8	9.2	10.9	1.6	1.6
Supply companies	540.5	598.0	731.2	620.1	16.3	18.0	5.0	3.7
FCC (Farm Syndicate Loans)	10.8	11.2	12.6	14.7	9.3	10.6	0.1	0.1
Insurance, trust and loan companies	71.5	85.9	131.9	142.5	11.6	12.2	0.9	0.8
Federal Business Development Bank	87.5	85.0	95.8	94.7	12.6	14.5	0.7	0.6
Provincial government agencies	21.8	20.5	19.9	16.6	8.3	8.8	0.1	0.1
Credit unions, including FILA	533.0	452.9	504.3	668.6	11.9	14.2	3.4	4.0
Municipalities (Ontario Tile Drainage)	69.9	78.9	98.8	112.0	5.5	6.1	0.7	0.7
Finance companies (cars and trucks)	29.0	33.0	40.0	42.0	14.3	16.0	0.3	0.3
Alberta Treasury Branches, includes FILA	59.5	71.8	72.7	115.6	14.4	15.3	0.5	0.7
Total, intermediate-term	3,435.9	3,661.2	4,409.3	4,982.2	13.1	15.1	30.1	30.0
Short-term (Up to 18 months)								
Banks (other than FILA)	1,909.6	2,102.8	2,459.6	2,862.1	14.0	15.3	16.8	17.2
Supply companies	204.0	220.0	162.0	181.5	18.0	18.0	1.1	1.1
Credit unions	338.5	230.5	247.0	227.1	13.9	15.3	1.7	1.4
Finance companies (household and personal)	7.0	8.0	10.0	10.5	22.0	24.0	0.1	0.1
Dealers, stores, etc.	8.0	9.0	11.0	11.5	14.0	18.0	0.1	0.1
Private individuals	128.0	128.9	108.0	120.0	10.0	12.0	0.7	0.7
Alberta Treasury Branches	98.7	117.1	71.9	142.0	13.9	14.8	0.5	0.8
Provincial agencies	4.0	19.6	4.1	4.0	14.2	15.9	—	—
Cooperative programs	52.3	85.5	109.9	143.1	21.8	21.0	0.8	0.9
Unpaid taxes	8.5	9.1	9.5	10.5	14.0	14.0	0.1	0.1
Total, short-term	2,758.6	2,930.5	3,193.0	3,712.3	14.4	15.5	21.8	22.4
Total, all credit	10,630.0	12,151.4	14,644.4	16,583.3	11.6	12.9	100.0	100.0

Source: Agriculture Canada

Federal and Provincial Farm Credit Programs

Federal

Program	Purpose	Eligibility	Terms
Farm Credit Act	To establish viable farm units. Loan funds are used for development of farms including the purchase of land, breeding stock and equipment, making improvements and paying debts or for any other farm purpose.	Full-time farmer or about to become a full-time farmer. Under the "Beginning Farmer" program, applicants must be full-time farmers within five years.	Maximum loan of $300,000 per qualifying applicant to a maximum of $500,000 for a group. Interest rate is based on the yield of 5 to 10 year Government of Canada bonds + 1%.
FCC Special Farm Financial Assistance Program	To assist farmers in "financial difficulty".	Farmers must indicate that they require assistance to ensure the survival of their farm operation.	FCC borrowers eligible for a special loan receive an interest rebate on long-term, debt consolidation loans to 4% below the normal lending rate for a two-year period.
Farm Syndicates Credit Act	To provide the financial means for farmers to act cooperatively in overcoming the cost of individual ownership of machinery, buildings and equipment.	A group of 3 or more farmers who wish to form a syndicate to jointly purchase and use machinery, equipment or buildings cooperatively.	Maximum loan is 80% of the cost to a maximum of $15,000 per member or $100,000, whichever is the lesser. Interest rate is based on the yield of 1 to 10 year Government of Canada bonds + 1%.
Farm Improvement Loans Act	Farm improvement including purchasing livestock, equipment, machinery and additional land, constucting buildings and fences, and for drainage, irrigation, etc.	Bona fide farmer.	Maximum loan is $100,000. Loans may be used to finance up to 75% of the cost of livestock and equipment and up to 90% for other purposes. Repayment period of 15 years for land and 10 years for other purposes. Interest rate is prime rate plus 1%.
Small Business Bond Program	Reduces the interest costs of small businesses by enabling them to obtain financing from banks. For refinancing of debts only.	Farmers must be deemed in "financial difficulty". The following criteria must be met: (1) must be in default or expect to be in default on outstanding debts, (2) alternative financing not available from other sources, and (3) must not have other internal assets available which could be used to alleviate the situation.	Maximum amount available through the program is $500,000. Maximum term of 5 years. Interest rate is usually ½ of prime plus 2 to 3%. Program ends December 31, 1982.
Federal Business Development Bank	To promote and assist in the establishment and development of business enterprises in Canada.	Canadian businesses who have difficulty in obtaining financing elsewhere.	Direct loans at commercial interest rates. Rate increases with the size of the loan.
Small Business Investment Grant	To stimulate capital investment by small businesses including farms by reducing the cost of borrowing.	Loans to small businesses between June 29, 1982 and March 31, 1983 for the purchase of new depreciable assets or the financing of research and development. Loans for land, automobiles, livestock and used equipment do not qualify.	A grant of up to 4% to a minimum of a 12% interest rate for two years is paid to the lending institution on behalf of the borrower. Loans must be between $10,000 and $500,000.

Provincial

British Columbia

Program	Purpose	Eligibility	Terms
Agricultural Land Development Act	Land improvement including drainage and irrigation, breaking land, orchard renovation, well drilling and water systems.	Under 65 years old with annual non-farm income of less than $50,000. Must have resources to make use of improved land.	Maximum loan $25,000 at ½ of prime interest rate. Repayment over 15 years. May arrange to have interest payment only for 3 years.
Agricultural Credit Act			
(a) Guaranteed Loans	Complements existing sources of credit with support security to those who cannot qualify for bank loans.	All farm operations. Gross non-farm family income must be less than $50,000.	Provincial loan guarantees through banks and credit unions at prime plus 1%.
(b) Partial Interest Reimbursement	Reduce the cost of borrowing by reimbursing a portion of the interest.	All farm loans from banks, credit unions, FCC, FBDB, VLA and Western Indian Agricultural Corporation. All farm operations with non-farm family gross income of less than $50,000.	Reimburse interest rate to an average of chartered bank prime less 1%. Maximum benefit per farm is $10,000 annually.
(c) Asparagus Production Incentive Program	To assist farmers to increase production through a reduction in loan interest costs.	Must complete an approved farm plan and plant at least 5 acres.	Reimburses interest paid on bank and credit union loans of up to $400 per acre to maximum of prime plus 1%. Reimburses 100% of interest in years 1 and 2, 75% in year 3 and 50% in year 4. Loans payable over 10 years.
(d) Grapevine Assistance	To re-establish crop production which was destroyed by frost damage in 1978-79.	Farm operators who are grape growers and suffered grapevine frost damage in 1978-79.	Reimburses interest costs at 4% in 1980 to 1982 on loans from banks and credit unions. Maximum loan eligible of $1,000/acre.
(e) Rain Damaged Crop Assistance	To lower credit costs to producers.	Farm operators who suffered loss of non-insurable crops due to excessive rainfall in 1981.	Reimburses interest costs by 25 to 50% of bank prime rate on operating loans. Maximum benefit is $10,000.

Alberta

Direct Farm Loans	Purchasing land, permanent improvements, consolidating debts and other purposes related to maintaining a farm.	*Part A* Primary producers whose proforma assets including the loan do not exceed $450,000 – whose proforma net worth does not exceed $225,000 and who cannot obtain financing elsewhere.	Maximum of $200,000 loan. 30-year repayment period. 20% equity required. Interest rate is 12% with a 3% reduction of interest for the first 5 years.
		Part B Primary producers whose proforma assets and net worth are in excess of Part A limits and who cannot obtain financing elsewhere.	Maximum of $200,000 loan. 20% equity required. 12% interest rate.

Program	Purpose	Eligibility	Terms
Beginning Farmer Program (Direct Loan)	To assist individuals to develop viable units. All agricultural purposes except operating capital.	Individual with farm experience or equivalent in college and farm experience and who has 10% equity or vested equity. Proforma assets must not exceed $350,000. Proforma net worth of not more than $175,000.	$200,000 maximum loan for up to 30 years. Interest rate of 12% with a 6% earned incentive based on the original loan amount for the first 5 years. Once in a life time but staged option available for individuals who do not need the full $200,000 loan initially.
Disaster Assistance Program	Provides loan assistance required to maintain reasonable viability by repairing and replacing buildings and live-stock. Does not provide compensation.	Farmers who have suffered a natural disaster where losses are not adequately or cannot be insured.	Terms and conditions are on the basis of need which may include: loan guarantees, direct loans, payment deferred or waiving of interest.
Specific Guaranteed Loans	Short or intermediate term guaranteed loan for any agricultural asset, operating capital and debt consolidation.	Borrower is unable to obtain financing from another lender and is a primary producer.	No maximum is specified, but expect that borrower will have 20% equity. Maximum term is up to 15 years. Interest at the lenders prime rate plus 1% up to 10 years and prime plus 1½% over 10 years.
Alberta Farm Development Loan (AFDL) (Guaranteed Loan)	A guaranteed loan for short and intermediate-term credit for any agricultural purpose except debt consolidation.	Operations which produce or intend to produce agricultural products.	A maximum of $100,000 for 15 years. Interest = prime + 1% for up to 10 years or prime + 1.5% for loans of 10 to 15 years.
Vegetable & Potato Storage Program (Guaranteed Loan)	To assist vegetable and potato producers to improve or construct storage for vegetables.	Potato growers licensed by the Alberta Potato Commission and vegetable growers who are members of the Alberta Fresh Vegetable Marketing Board.	An incentive of $70 per $1,000 of original loan amount eligible paid annually for 5 years. A maximum of $100,000 for up to 15 years. Interest rate = prime + 1% for loans repayable within 10 years; 10-15 years is prime + 1.5%. Loans must be obtained under Alberta Farm Development Loan program.
Range and Soil Improvement Program (Guaranteed Loan)	To increase farm and ranch income by improving land productivity. Brushing and breaking previously uncultivated land, seeding pasture and hay, liming or marl, deep plowing brush control, fencing, animal access trails, poisonous plant and range weed control, drainage.	Primary producers who wish to improve range and soil productivity.	Incentive payments of $70 per $1,000 of original loan amount eligible annually for first 5 years. Maximum loan eligible is $10,000 for an individual farm to a maximum of $20,000 for partnership or corporation. ($10,000 for the first family plus $5,000 for each additional family.) Loans must be obtained under the Alberta Farm Development Loan program.
Sheep Producers' Incentive Program (Guaranteed Loan)	Improve the sheep industry by helping farmers to purchase equipment, facilities and breeding stock.	Potential or established sheep producers.	Incentive payments of $70 per $1,000 of original loan amount eligible annually for first 5 years. Maximum loan eligible is $40,000. Loans must be obtained under the Alberta Farm Development Loan program.
Alberta Heritage Fund Small Business and Farm Interest Shielding Program	To provide assistance to small businesses so that for 24 months they will have the certainty of a 14.5% shielded interest rate.	Active Alberta businesses with gross sales of not more than $5 million and a recorded debt prior to Sept. 1, 1982 from a recognized financial institution.	Interest on up to $150,000 is rebated down to 14.5% from a maximum of 20.5% for 24 months from March 1, 1982. The interest rebate is paid semi-annually to the borrower.

Program	Purpose	Eligibility	Terms
Alberta Heritage Fund Mortgage Interest Reduction Program	To reduce mortgage interest rates to 12.5% for 24 months for homeowners who are buying a new house or have renewed their mortgage at a high interest rate.	Any Alberta homeowner including farmers with a residence on the home quarter and whose mortgage rate is above 12.5%.	Interest on up to a $60,000 mortgage is rebated down to 12.5% from a maximum of 19.5% for 24 months from Sept. 1, 1982. The interest rebate is paid monthly to the borrower.
Saskatchewan			
FarmStart Corporation Loan and Grant Program	Credit and Grants for those establishing or expanding in irrigation or livestock including improvement of grazing land, purchasing breeding stock and related essential machinery, and improving livestock facilities.	Farming must be the present or intended principal occupation. Net worth of applicant and spouse must not exceed $185,000 and net income must not exceed $18,000 per year. The loan must be retired prior to the applicant reaching 65 years of age.	Maximum loan amount is $200,000. Grant of $8,000 is available to applicants with a net worth of less than $36,000 (maximum total disbursement of $208,000). Interest schedule as follows: (a) if productive assets exceed $250,000, interest on total loan is assessed at 14% otherwise (b) for loan amounts up to $100,000, the interest rate is 10% for first 5 years and 12% for remainder of the term, and for portion exceeding $100,000, interest rate is 14% for full term of loan. Maximum loan term is 15 years.
FarmStart Guaranteed Livestock Loans	Credit for establishing or expanding livestock production.	Loans available to individuals and groups for purchase of female beef and sheep breeding stock.	Loan limits are $12,000 for one individual, $24,000 for 2 individuals, and $36,000 for a group of 3 or more. Repayment is over 7 years with no payments on principal due for 2 years after commencement of loan. Interest rate is maximum of 2% above lender's prime rate. The province guarantees 80% of the loss on any one loan.
FarmStart Corporate, Co-operative and Partnership Loans	Credit for establishing or expanding irrigation or livestock production.	Co-operatives, corporations and partnerships may be eligible for loans if every member is eligble or loans may be provided to individual members who are eligible.	The amount of loan for a multiple operator unit is equal to the sum of the amounts available to each individual member.
Land Bank Commission	Transfer of land within a family. Facilitates transfer of land for people retiring out of agriculture and allows potential farmers an opportunity to rent land. Funds are also available to improve land.	A maximum net worth and maximum average 3-year net incomes are established annually.	Land is leased on flexible cash rent basis based on productive value of land. Land may be purchased after 5 years of leasing with 20% discount on home quarter up to $5,000. Land Bank does not finance purchases.
SEDCO	Assists specialized agricultural operations. Basic farming operations are not eligible.	Businesses located in Saskatchewan.	No set maximum but amount cannot exceed 80% of fixed assets. Long-term loans with no set maximum term.
Saskatchewan Housing Corporation – Farm Housing Program	Assists farm families to acquire new homes and improve housing.	Principally employed in farming and reside on a farm for at least 9 months of year. Home cannot exceed 130 sq. metres.	Down payment of 5% required. Maximum loan of $52,000 over 35 years. Interest rate of 16% fixed for 10 years. Grant of $1,800 per year for low income families with gross debt ratio over 30%.

Manitoba

Program	Purpose	Eligibility	Terms
Manitoba Agricultural Credit Corporation (M.A.C.C.)			
Direct Loans – Long Term	Direct long term loans for livestock and machinery, permanent improvements and debt consolidation.	18 years of age or over. Principally occupied in farming or will be after the loan. A Canadian citizen or landed immigrant residing in Manitoba or will be after the loan. Net worth of up to $185,000.	Maximum of $200,000 for 30 years up to 90% of security. 60% of security must be in land and up to 40% may be in livestock and a maximum of 20% in equipment. Interest rate is 0.5% over monthly cost of financing to the Province.
Young Farmer Interest Rebate	Interest rebate to assist young farmers to expand or re-organize their farming activities.	18 to 39 years inclusive who obtain a Direct Long Term Loan or a Specific Comprehensive Long Term Loan.	Maximum 4% rebate applies to first $50,000 loaned for first 5 years of loan.
Direct Loans – Intermediate Term	Direct intermediate-term loans for machinery, livestock and permanent improvements.	Same as long-term loans.	Maximum of $60,000 up to 90% of value of land and livestock and 65% of machinery. Repayment period is 10 years. Interest at 0.5% over monthly cost of financing to the Province.
Direct Loans – Corporate, Co-operative and Partnership	To establish and develop multiple-owner farm enterprises for all conventional farming operations and feedlots and vegetable storage facilities.	Co-operatives, corporations, partnerships and producer boards are eligible.	Maximum of up to 70% of appraised value of securities or producer performance bonds. Interest at 0.5% over the monthly cost of financing to the Province.
Farm Production Guaranteed Loans	Guarantee lines of credit made to farmers by lending institutions for operating expenses and for purchase of livestock and equipment.	18 years of age and principally occupied in farming. A Canadian citizen or landed immigrant residing in Manitoba. Equity in farming operation of not less than 10% and not more than 40%.	The loan guarantee and any FIL cannot exceed $60,000. Repayable annually or at the completion of a production cycle. For other than operating purposes, the term can extend to 10 years. Interest rate may not exceed prime plus 1%.
Specific Comprehensive Guaranteed Loans	For land, livestock, machinery, permanent improvements, debt consolidation and operating capital.	As in Farm Production Guaranteed Loans.	Maximum of $300,000 over 31 years. Interest rate may not exceed prime plus 1% for loans.
Co-operative, Corporate and Partnership Guaranteed Loans	To provide operating capital by a bank or credit union without the borrower having to provide securities.	Co-operatives, corporations, partnerships and producer boards are eligible.	Terms and conditions are set by the Corporation which guarantees the total loan.
Stocker Program	To retain stocker calves in Manitoba.	18 years of age or over, and a Manitoba resident. Farmers who have feed and facilities to raise calves.	Farmer agrees to feed steer stocker calves purchased by M.A.C.C. Calves may be sold up to 18 months after purchase. Stocker agreements may not exceed 300 head or $60,000 per farmer. Interest rate is the same as that set for intermediate-term loans.

Program	Purpose	Eligibility	Terms
Interest Rate Relief Program	Direct assistance for Manitoba farmers in difficulty due to high interest rates. Financial counselling is provided to recipients through the Manitoba Department of Agriculture.	Farmer must have a gross income not exceeding $70,000 in two of the last three years and be in financial difficulty due to high interest rates.	Interest rebates payable during 1982 and 1983 on outstanding debts from financial institutions, except for debts for the purchase of land (other than the home quarter). Assistance to a maximum of $6,000 per year is provided on the basis of 50% grant and 50% deferred interest loan, on interest rates up to 20%. The loan portion is interest-free for 2 years and thereafter amortized over 5 years. Rate is the prevailing M.A.C.C. rate effective at the end of the interest-free period.
Ontario			
Ontario Young Farmers Loan Program	Guaranteed loan to help establish young farmers. For farm development purposes such as livestock, equipment, buildings or consolidation of debts.	18-35 years old and intend to farm for at least 10 years.	Maximum 10-year repayment period. Interest rate is 1% above prime rate for 5 to 10 years. Made through chartered banks and designated credit agencies.
Installation of Agricultural Tile Drainage	Loans are available from the government through township councils for tile drainage.	Land must be in agricultural production and owned by a farmer. Drainage work must be completed by a licensed contractor.	Up to 60% of the cost of under-drainage work repayable in 10 years. Interest rate is 10%. Loans are secured by the township through a debenture. Maximum loan in a year is $20,000 and maximum outstanding is $60,000.
Farm Adjustment Program	Provide interest rebates and government guarantees to farmers in financial difficulty who have a good chance of recovery and success. For debt consolidation purposes.	Farmer must have a value-added income of $12,000 or greater and equity of between 10% and 60%. Interest and principal payments must exceed 20% of total operating costs. Farm must be viable or show promise of viability after a 12-month period.	Three types of assistance are available: (1) deferral of bank interest for a 6-month period. Interest during this period is not compounded and is guaranteed by the Province, (2) interest reduction of up to 5% (to a minimum rate of 12%) for all floating rate bank loans, over a 12-month period, and (3) one-year provincial guarantee on new lines of operating credit at prime interest rate for one year.
Quebec			
Act to Promote Long-Term Credit by Private Lending Institutions – "Tandem Program"	For the purpose of farm land, livestock and machinery, constructing buildings, improving land, consolidation of debts, etc.	Individuals of legal age principally engaged in farming. Need for a loan is considered in each case. Establishing farmers must be principally occupied in farming within 5 years.	Maximum loan is $250,000 per individual and $450,000 per group for a maximum term of 39½ years. The loan cannot exceed 90% of appraised value of property for establishing, expanding and developing an enterprise and 80% of the appraised value for other purposes. For chattel mortgages, the limit is $100,000 for an individual and $200,000 for a group, or up to 80% of the appraised value of chattels, whichever is the lesser. The interest rate is set at prime and adjusted monthly with a subsidized interest rate on the first $150,000 for an individual and $200,000 for a group so that on these amounts farmers pay 4% plus one-half the difference between 4% and prime.

Program	Purpose	Eligibility	Terms
Farm Credit Act administered by the Farm Credit Bureau	Same as under the Tandem Program except the Farm Credit Bureau provides the funds.	Individuals of legal age principally engaged in farming.	Same as under the Tandem Program except the Bureau provides the funds. Farm Credit Bureau rebates the interest and provides the loan funds between 75% and 90% of the security value for loans approved under the Tandem Program.
Farm Loan Act	To subsidize the interest rate charges under the Farm Credit Act and the Veterans' Land Act.	Borrowers under the federal Farm Credit Act and the Veterans' Land Act. Must meet the same eligibility criteria as for the Quebec programs.	The Quebec government subsidizes the amount owed to the lending agency on the first $15,000 of the loan in excess of its own rates.
Act to Promote the Establishment of Young Farmers	To assist young farmers to establish a farm by reducing the cost of long-term credit.	Young farmers 18 to 40 years of age who are developing a farm and have not already received a loan.	The Quebec government pays the interest costs on first $50,000 for 5 years on long-term loans to young farmers who are establishing a farm under Quebec's Farm Credit Act and Tandem Program and under the federal Farm Credit Act.
Quebec Farm Improvement Loan Act	Provides for guaranteed loans from chartered banks and credit unions. Provides intermediate financing for purchase of basic herd livestock, quotas, additional land, machinery, farm buildings, and other farm improvements.	Individuals of legal age principally engaged in farming. Need is the main consideration.	Maximum loan is $100,000. Repayment up to 10 years except for additional land and tile drainage where limit is 15 years. Interest rate is prime plus 0.5% with interest reimbursement of 3% on first $15,000.
Act to Promote Farm Production Credit	Provides short-term guaranteed loans for operating expenses for crop and livestock production and for the purchase of standing crops and livestock raised for meat or egg production and for a farmer's salary and living expenses.	Individuals of legal age principally engaged in farming.	Guaranteed loans of $100,000 available from chartered banks and credit unions for up to 30 months at the lender's current rate of interest.
Act to Promote Special Credit to Farmers During Critical Periods	Special credit to cover losses as a result of exceptional circumstances such as droughts, floods and other natural disasters and to assist in covering production costs during periods of low prices for farm commodities.	Producers affected by a natural disaster or a major drop in the price of farm products.	Government guaranteed loan with interest subsidies. Each disaster is covered by a different regulation which allows flexibility in the program.
	Example: To provide financial aid to hog producers for the period from June to November 1980 on loans from banks and credit unions.	This aid was for consolidation of credit used in existing hog enterprises. Expansion of hog enterprises did not apply.	Maximum period 4 years. Loan limit for farrow operations is $25,000 and $60,000 for finishing operations. Rebates on actual rates paid down to 5% in the first year, 8% in the second year, 10% in the third year and prime plus 0.5% in the fourth year.

New Brunswick

Program	Purpose	Eligibility	Terms
Loans to Full-Time Farmers (Part I)	Loans for the purchase of farms and additional land, buildings, livestock and equipment and consolidating short-term debts.	A farmer or qualified person wanting to farm.	No maximum, usually a 20-year mortgage but from 5 to 25 years with 8-year chattel mortgage on livestock and equipment. Mortgages renewable every 5 years. Interest rate established quarterly at provincial lending rate. Interest subsidy reduces the interest rate to a base rate of 7% plus half the difference between the base rate and the provincial lending rate. Maximum interest subsidy payable to a borrower is $10,000 per year.
Loans to Part-Time Farmers (Part II)	Provides loans for purchase and lease of land to qualified part-time farmers at low interest and rental rates to assist in establishing a viable economic unit.	Non-farm annual net taxable income cannot exceed $20,000 with farm sales not less than $5,000 annually.	Term loans to a maximum of $50,000 on security of personal and real property. Interest rate established quarterly at provincial lending rate. Interest subsidy program applies.
Loans to Commercial Farms and Agricultural Linkage Operations (Part II)	Provides loans to commercial farmers and agricultural linkage operations to maximize returns to the producer.	Commercial farmers and agricultural linkage operations (pre-processing stage e.g. marketing, storing, grading) who do not qualify for other federal or provincial assistance.	Term loans at provincial lending rate. No maximum. Security is taken on personal and real property. Interest subsidy program applies.
Interest Rebate Program	Provides an interest rebate to encourage farmers to borrow from FCC.	All FCC borrowers. Only on FCC loans bearing an interest rate greater than 7%.	Provides an interest rebate on existing and new FCC loans to a base rate of 7% plus half the difference between the base rate and the rate actually charged on the loan. Maximum total annual interest subsidy payable is $10,000 on both FCC and provincial loan programs.
Leasing of Provincial Land	Provides opportunity for farmers to lease additional land in order to ensure viability of a farm operation.	All farmers who have or will have a viable unit by leasing additional land.	Five-year renewable leases. Lease payment is $1 for first and second year and for following years is 5% of investment in land or appraised value. Lessee pays for insurance and taxes. Lessee may purchase land for Board's investment or fair market value less net value added.

Nova Scotia

Agriculture and Rural Credit Act			
Loans to Commercial Farms	Provides loans to new and established commercial farmers.	A farmer who is over 19 years of age and obtains more than 50% of gross income from farming or who will operate a commercially viable farm with agricultural products valued at over $10,000 per year.	Borrow a maximum of $300,000 at 10% interest rate on first $150,000, 13% on balance up to $300,000. Loan cannot exceed 90% of appraised value of farm land or 75% if a chattel mortgage is required. Loans over $300,000 are approved by Cabinet, with interest at the prevailing provincial lending rate.
Loans to Part-Time Farmers	Assists part-time farmers to produce agricultural products.	Part-time farmers whose main source of income is from off the farm.	Borrow a maximum of $45,000 or up to 90% of the appraised value of the land and buildings, whichever is less. The interest rate is 13%. Must reach a gross farm income of $5,000 per year by end of 5 years or interest rate adjusted to bank prime plus 1%.

Program	Purpose	Eligibility	Terms
Farm Land Purchase and Leasing Program	Provides assistance to farmers by acquiring land of high agricultural potential for development and leasing or selling to farmers.	An individual who is or will become a full-time farmer.	Property is owned by the board for 5 years with an option to purchase. The lease fee is 10% of the purchase price, plus acquisition costs, taxes and insurance. The lease may be renegociated for a further 5 years or the land may be bought. If the land is purchased after the first 5 years, the outstanding amount on land purchase is charged interest at the commercial loan interest rate.
Interest Subsidy Program	Subsidize interest rates for borrowers from FCC, VLA or the N.S. Farm Loan Board.	FCC, VLA and N.S. Farm Loan Board borrowers who are commercial farmers.	A subsidy of 2½% on principal owing. Maximum interest subsidy is $1,250.
Interest Forgiveness Program	Subsidize interest costs for borrowers from FCC or the N.S. Farm Loan Board who are young, first-time farmers.	FCC and N.S. Farm Loan Board borrowers who are attempting to becomme established in commercial farming.	For first-time farmers under 35 years of age, the interest is paid by the province (up to $15,000/year) for the first two years on FCC and N.S. Farm Loan Board loans.
Prince Edward Island			
Prince Edward Island Lending Authority			
Short-Term Loans	Provides revolving operating credit for farmers.	Borrower must have suitable land resource, machinery and equipment and be presently farming.	Repayment upon sale of produce. No maximum. Interest rate floats at current bank prime rate.
Intermediate-Term Loans	Provides intermediate-term loans for farm equipment, farm trucks and livestock.	Borrower must be currently farming.	Term of repayment of the loan depends on the type of livestock and equipment and can be up to 10 years. No maximum limit. Interest rate is at the current cost of borrowing to the province. Loan rate fixed at time of borrowing. Maximum renewal period of 5 years.
Long-Term Loans	Provides capital for the purchase of farm land and buildings, the construction of buildings and debt consolidation first mortgage basis.	Borrower must be currently farming or about to become a farmer.	No maximum loan. Repayable over 30 years. Cannot exceed 75% of appraised value of fixed assets. Interest rate set at cost of borrowing to the province. Loan rate fixed at time of borrowing. Maximum renewal period of 5 years.
P.E.I. Land Development Corporation	To purchase land from owners who wish to sell and to lease or resell to beginning and small expanding farmers.	Any farmer who wishes to expand his land base.	A farmer can obtain land from the Corporation by: (a) a mortgage for up to 30 years on 75% of property value at FCC lending rate; (b) agreement of sale for up to 30 years on 80% of value; or (c) a 5-year lease with option to purchase or renew lease.
Newfoundland			
Farm Development Loan Board	Assists farmers to establish viable farms through loans for livestock, equipment, land development and buildings.	Individuals of legal age principally occupied in farming who wish to improve or expand their operation. Includes new entrants, if they meet established criteria.	Maximum loan of $30,000 for livestock, equipment, farm buildings and land development. The maximum term is 15 years and the interest rate is 12%.

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